

Mrs Thatcher pledges no sellout on Ulster

The Prime Minister said last night that there was no sellout over Northern Ireland's constitutional position. Those who said otherwise were wrong or had chosen not to understand the purpose of the British Government's talks with the Irish Republic. The discussions, she told a dinner at Stormont, were aimed at securing peace and posed no threat to Ulster.

Reassurance on talks with Mr Haughey

By George Clark

Political Correspondent
Mrs Margaret Thatcher, on her first visit to Northern Ireland since her talks in Dublin with the Irish Prime Minister, went out of her way last night to give new assurances to the people of the province that there was no question of their not remaining citizens of the United Kingdom.

That would be so, she said, unless the Ulster people and the Parliament at Westminster decided otherwise. Obviously seeking to clear away suspicions that her talks in Dublin were in some way designed to change the constitutional position, she stated firmly: "That is the law of the land. It is fundamental to the Government's thinking."

"It is something to which I am personally and deeply committed. Let me say with all the emphasis at my command that there is no plot. There is no sell out."

"Those who argue otherwise have simply got it wrong and are choosing not to understand the purpose of my discussions with Mr Charles Haughey."

Mrs Thatcher, speaking in Stormont at a dinner given by Mr Humphrey Atkin, Secretary of State for Northern Ireland, said that everyone had a common interest in peace and reconciliation.

"We all have a common interest in creating a society where the gunman has no place and where he will no longer be able to kill, and maim innocent people; and we all have a common interest in building better working relationships within these islands and within Europe."

Mrs Thatcher assured her audience that the discussions with the Government of the Irish Republic were directed towards those ends. "They pose no threat to Northern Ireland," she said. "We shall not be deterred by those who seek to invent one. We will not be deflected from serving the best interests of the people of the United Kingdom, including the people of Northern Ireland. Attempts at intimidation will fail. No one in Northern Ireland stands to gain from them. The rule of law must apply to everyone."

The Government's first priority, Mrs Thatcher said, was to protect the people of Northern Ireland from the bullet and the bomb. "The terrorists, whether they be Catholics, Protestants, or Republicans, have nothing to offer but heartbreak and bloodshed."

Great strides had been made in returning to normal policing in Northern Ireland, but the task was not yet done.

Often the operations of the Security Forces had to be shrouded in secrecy. That had made them targets for unfounded and ill informed criticism. Their critics should remember how many lives, since 1969, the police and the Army had laid down to protect the ordinary citizens of Northern Ireland.

"Our aim is to build a healthy and harmonious society in Northern Ireland," the Prime Minister said. "The measures the Government took to deal with the terrorist minority must do nothing to damage the fabric of society. We need too, and increasingly we are getting, determined and effective cooperation from the authorities in the Republic of Ireland," she said.

There was again a hunger strike at the Maze prison in the quest for what was called political status. "There is no such thing as political murder, political bombing or political violence. There is only criminal murder, criminal bombing and criminal violence. We will not compromise on this. There will be no political status," Mrs Thatcher said.

During her speech the Prime Minister announced that electricity tariffs in the province would be brought more closely into line with those of England and Wales.

That was an important decision of principle, she said. "I believe it will be welcomed by commerce, industry and agriculture as well as by domestic consumers, as evidence that the Government is responsive to the needs of this part of the United Kingdom and as confirmation of the Government's economic commitment to the province."

Paisley protest, page 2



Indian lathi charge: Police dispersing stone-throwing student demonstrators in the Gujarat city of Ahmedabad, where there is mounting protest against the reservation of university places for low-caste people.

The authorities have asked the inhabitants of Ahmedabad, the scene of considerable violence during recent weeks, to surrender their firearms to the police in the interest of order—Trevor Fishlock writes from Delhi.

In the city of Baroda, western Gujarat, police wielding lathis broke up a protest rally of 2,000 schoolchildren yesterday. The children were supporting medical students who have been protesting for several weeks against the number of low-caste people being given places in medical schools under a caste quota system.

The demonstrating schoolchildren were dispersed by what police called "a mild lathi charge". A lathi is a cane about four feet long and over an inch thick.

Mr Heath to undergo medical treatment

By Our Political Staff

Mr Edward Heath, Conservative MP for Bexley, Sidcup, and Prime Minister from 1970 to 1974, announced yesterday that he is cancelling all engagements for two months to undergo medical treatment.

According to a close friend, he is being treated for a glandular complaint.

Mr Heath said that he had taken his decision with regret but on the advice of his doctors. On his behalf it was stated: "He will be resting at home or staying with friends while undergoing medical treatment, which his doctors expect will lead to a complete recovery."

"Afterwards he will resume his full political and other activities."

Mr Heath was not in his usual form when he attended the reception at the Commons on Wednesday to mark the centenary of the Parliamentary Press Gallery. He said then that he was having to take things easy and had given up the prospect of yachting for some time.

Yesterday he addressed the British Consultants Association in London; his last public engagement before beginning his rest. He cancelled his engagement to address a Young Conservative dinner at St Stephen's Club in London last night.

Mr Heath entered Parliament in 1950. He became Leader of the Opposition and of the Conservative Party on August 2, 1965, after winning an overall majority on the first occasion on which the leader was chosen by an electoral process.

He resigned as leader of the party and the Opposition in February, 1975, when he failed to top the first of two ballots for party leadership. The ballot was won by Mrs Margaret Thatcher and when she formed her Government in February, 1979, Mr Heath declined to serve.

Tug in Channel chase after shots are fired

By Richard Ford

Nine men believed to be Dutch and Belgian were being questioned at Newhaven, Sussex, last night in connexion with alleged cannabis smuggling after customs cutters had chased a tug across the Channel.

The Panamanian-registered tug Sea Rover was boarded by British customs officers two and a half miles off Beachy Head after it had been fired on by a French warship and a fire had broken out at the stern. The vessel was escorted into Newhaven harbour by high-speed customs cutters. Seeker and the quay was sealed off by police.

As the crew of the Sea Rover was taken ashore the bearded Dutch captain, wearing a hooded brown anorak, shouted: "I did not stop when requested to do so by the French naval vessel because I was in international waters."

"They opened fire and we dived for cover. Otherwise someone would have been killed. We have no drugs on board." One of the French Navy arrangements with the British was to intercept a boat. It did not stop so it was necessary to open fire.

Earlier three French customs vessels in a joint operation involving the British had followed the 80ft blue and yellow tug as she left Boulogne. She was intercepted but failed to heave to and customs cutters pursued her across the Channel.

When the French intercepted a shot was fired across the bow of the boat and then the funnel was riddled with shots. A fire started in the stern and the Sea Rover put out a distress call which was picked up by English coastguards. A man at Fairlight, a coastguard station, near Hastings said: "It was exciting as we could hear what sounded like machine-gun fire as the tug came over."

"I heard a man saying 'The French are firing at me, the French are firing'. He said he was Dutch and that the shots were being fired while he was in international waters."

Mr Robert Marchant, a coastguard pilot who flew over the tug when she was five miles off Beachy Head said he saw the crew throwing flaming debris overboard.

The tug was cancelled after coastguards were told that a French warship was under control but merchant ships were warned not to go to the tug. Monitoring techniques in Dover were able to track the ship's course.

As the unarmed British customs officers boarded the Sea Rover, the French customs cutters, with armed men aboard, and the French warship converged on the scene with an aircraft circling overhead. A spokesman for British customs said the Sea Rover had been intercepted just off the French coast and after she failed to stop was pursued across the Channel by British and French customs cutters.

Muslim peace mission reveals proposals for ceasefire in Gulf

From Tewfik Mislawi
Beirut, March 5

A nine-member Islamic peace commission today publicized a list of proposals it had submitted to both Iraq and Iran for ending the 24-week Gulf war.

The proposals, which were carried by the official Saudi press agency, call for a cease fire on March 12 and an Iraqi troop withdrawal from Iranian territory to begin a week later, with the proviso that it will be completed within four weeks.

[President Bani-Sadr of Iran today indicated that his country was unlikely to accept the peace proposals. He insisted on an immediate withdrawal from Iran simultaneous with any ceasefire. (Report, page 6.)

This is the first time that specific peace proposals have been made public by any mediator in the Gulf war since it began on September 22.

The members of the Islamic commission, which was set up by the Islamic Conference summit in Taif, Saudi Arabia, last January, are the Presidents of Guinea, Pakistan, Bangladesh and the Gambia, the Turkish Prime Minister, the Foreign Ministers of Senegal and Malaysia, the chairman of the Palestine Liberation Organization and the Secretary-General of the Islamic Conference Organization.

The commission is waiting in Jiddah for reaction from Iraq and Iran to the peace proposals.

The proposed ceasefire and withdrawal of Iranian troops would be supervised by a military subcommittee from member countries of the Islamic Conference, Iraqi and Iranian claims and counter-claims to sovereignty over the controversial Shatt al-Arab waterway would be referred to a special arbitration committee of the organization.

According to the commission's list of proposals, the two warring countries are called upon to respect each other's sovereignty and territorial integrity, renounce the seizure of land by force, pledge not to interfere in the internal affairs of each other, accept the settlement of their disputes by peaceful means and guarantee free navigation in the Shatt al-Arab.

The proposals also stipulate that as soon as the ceasefire goes into effect, a special apparatus would be formed "under the aegis of the organization" to ensure free navigation in the Shatt al-Arab. A peacekeeping force from the Muslim organization could be established, if necessary.

Already the release of the peace proposals has revealed the sharp disarray among Iranian revolutionary officials—divided between the fundamentalist supporters of Mr Muhammad Ali Rajai, the Prime Minister, and the more moderate supporters of President Bani-Sadr.

One Iranian religious leader said today that Iran "should not accept anything less than the wishes of the nation, including the punishment of the aggressive Saddam Hussein (President of Iraq) and the liberation of Iraq from its usurping government."

Mr Rajai, a strong rival of Mr Bani-Sadr, last repeatedly demanded that the war be continued until the last Iraqi soldier has left Iranian territory. He is expected to intensify his campaign against Mr Bani-Sadr, who himself has vehemently criticized the Prime Minister for the agreement he reached with the United States for the release of the American hostages last January.

Ayatollah Muhammad Hoseyn Beheshti, the head of the Supreme Court and the leader of the dominant Islamic Republican Party, said in a statement yesterday that accepting a ceasefire before Iraqi troops had withdrawn from Iranian territory would be tantamount to treason.

Leah has not commented yet on the peace plan. Iraq started the war in the first place to establish absolute sovereignty over the Shatt al-Arab waterway. Accepting the peace plan as such would mean a significant concession. In contrast, the plan would assure Iran of a complete Iraqi troop withdrawal within four weeks.

Iranian intransigence, page 6
Leading article, page 13

Japan using robots to produce robots

From Peter Hazell
Tokyo, March 5

While Western managers are still attempting to introduce the first generation of advanced technology into their factories, Fujitsu's new plant near Tokyo now has robots making robots.

At the same time Hitachi, the electronic company, has just mobilized 500 scientists and engineers to produce a new generation of robots. They will be able to see, feel and walk up and down factory floors to supervise other robots on automatic assembly lines.

"In five years we expect all blue-collar workers to disappear from the assembly line. Factories will be manned only by clerical staff and a few maintenance technicians," a spokesman for the company says. Workers will be retained for other departments as business expands.

Fujitsu Fasco Ltd, one of the world's most advanced producers of computerized industrial equipment and robots, goes even further. It hopes to realize an industrialist's ultimate dream in the near future: a factory without any workers at all.

At present, Fujitsu's new plant, resembling a scene out of science fiction, employs 100 workers. They come on duty for eight hours during the day to keep an eye on rows of sophisticated robots, which churn out new robots for 24 hours a day.

Lined up around the factory are dozens of "automated cells", each consisting of a numerically controlled machine-tool and a sophisticated, computerized robot. Copper wires embedded in the factory floor guide unmanned cars between an automated warehouse and various cells on the assembly line.

Raw material is automatically loaded on to the carts and carried to the appropriate cell. There it is shaped and finished by the computer and the numerically-controlled machine tool, returned to the unmanned cart and automatically carried on to the next stage of production.

Workers return to the factory the next morning to complete

Continued on page 6, col 1

'Times' man gets press award again

By a Staff Reporter

Robert Fisk, Middle East correspondent of *The Times*, is named for the second successive year as international reporter of the year in the British press awards. Phillip Knightley, of *The Sunday Times*, is journalist of the year.

Mr Fisk's citation says his international reporting, particularly his dispatches on the Iranian war, combined meticulous detailed work with first-class descriptive writing. He receives £250.

Aged 34, he has been with *The Times* since 1971. He was named reporter of the year by *The Guardian* in 1978 for his graphic accounts of the troubles in Ulster and it was his dispatches from Iran in the wake of the revolution that last year earned him the title of international reporter of the year.

He spent several weeks last

September and October covering the war between Iran and Iraq. Before that he spent several months in Afghanistan reporting on the Soviet invasion. He is now back in Beirut covering Middle East affairs.

Jeremy Campbell, of *The New Standard*, and Peter Miesewand, of *The Guardian*, are commended in the international reporter section.

Mr Knightley is named journalist of the year for his investigations into the affairs of the Vestey shipping and meat companies. He wins £1,000 for what the judges called "the outstanding series of 1980", produced after months of patient inquiry into the Vestey family fortunes.

Michael Binyon, Moscow correspondent for *The Times*, is also singled out. He wins the David Holden award (£250), created in 1978 in memory of

the chief foreign correspondent of *The Sunday Times*, who was murdered in Egypt in 1977.

"Michael Binyon's reporting on Russia is one of the joys of the year," the citation says. "He combines hard reporting, descriptive writing and highly significant detail."

Mr Binyon, aged 36, has been Moscow correspondent for *The Times* since 1978.

Peter Evans, Home Affairs Correspondent of *The Times*, is commended under the specialist writer of the year award, and Harry Kerr, photographer with *The Times*, is commended under the photographer of the year award. Both receive £100.

The award for reporter of the year (£250) goes to a team of four from the *Daily Express* for their "professional handling" of the Iranian embassy siege.

The combined effort of Robert McGowan, Peter Hardy,

Continued on page 2, col 2

Thatcher economic policy 'not soundly based' all-party MPs' committee says

By John Whitmore

Financial Correspondent
With the Budget less than a week away, an influential all-party committee of MPs yesterday strongly criticized government economic policy, saying its medium term financial strategy "was not soundly based."

The committee described the medium term financial strategy, which sets out the basic framework of the Government's objectives through to 1983/84, as a "bold experiment."

Mr Edward O. Cann, a leading Tory backbencher and chairman of the Commons Treasury Committee which drew up the report on monetary policy, said yesterday that the emphasis of the report was intended to be on the need for a more flexible approach by the Government.

The report concluded that the Government's hopes that it could rapidly influence expectations about wages and prices by setting out a medium-term path for monetary growth have been unsubstantiated.

There was even less chance that such a policy could have worked, given that the monetary targets set out have not been met and have therefore lost credibility.

The report stated that the influence of monetary policy on wage and price inflation did not appear primarily through the setting of targets or through expectations, but rather in the short term through the lowering of economic activity and the

appreciation of the exchange rate.

Implicitly, the report suggested that the loss of output for any given reduction in the inflation rate was likely to be high under a monetary policy approach to economic policy.

The committee's report said, however, that there has been no "true monetarist" experiment by the Government. In spite of considerable efforts to meet its monetary objectives over the past year, the Government had not used either of its chosen policy instruments to the fullest extent possible.

It had moderated upward pressure on interest rates and decided against trying to cut the public sector borrowing requirement to the level it had stated was consistent with its monetary target.

The committee said that, while the readiness of the Government to announce medium and long-term objectives expressing its policy intentions was welcome, unforeseen external developments made achievement of immutable targets set for a period of several years difficult if not impossible.

The Government's medium term financial strategy had been "over-ambitious both in the first year and in setting specific targets for a four-year period. In any future financial and economic strategy it would be wise to allow for modification of the tactics in the light of developments."

Striking more deeply at the heart of the Government's economic approach, the committee stated that, although over the longer term the money supply and the price level appeared to move together, it had not been convinced by evidence of a direct causal relationship from growth in the money supply to inflation.

The committee also gave warning of the risks of subordinating fiscal policy to monetary policy in a period of recession. It said that, in a recession caused by a fall in private domestic demand, built-in automatic stabilizers tended to raise the public sector borrowing requirement, which in turn, with unchanged interest rates might lead to an increase in monetary growth above target.

To raise interest rates or tighten the fiscal stance to try to maintain money supply targets might prove counterproductive, requiring additional sacrifices of output in order that anti-inflationary monetary targets could be met.

The committee welcomed signs that the Government was moving away from using sterling M3 as the sole monetary indicator. But it said that any change to a monetary base system of control would have far-reaching consequences, and not least the increased volatility of interest rates.

Monetary base doubts, page 15
Financial Editor, page 17

Social Democrats and Liberals in first joint motion

Liberals and Social Democrats used proportional representation as a device to provoke debate in the Lords and thereby celebrated their first joint parliamentary motion. In the Commons the motion was won by Mrs Margaret Thatcher and when she formed her Government in February, 1979, Mr Heath declined to serve.

He resigned as leader of the party and the Opposition in February, 1975, when he failed to top the first of two ballots for party leadership. The ballot was won by Mrs Margaret Thatcher and when she formed her Government in February, 1979, Mr Heath declined to serve.

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Spanish coalition idea discarded by Premier

Senior Calvo Sotelo, the Spanish Prime Minister, discarded any idea of forming a coalition government with the Socialists to strengthen democracy after the failed military coup attempt. At a meeting with Senator Gonzalez, Socialist leader, both sides stated their differing views. The Socialists, however, accepted Senior Calvo Sotelo's offer to maintain a dialogue on the basic issues of stabilizing democracy, terrorism and regional devolution. Page 5

Poles under pressure

The Polish leaders have returned from Moscow with assurances of the Soviet leadership's extended trust but also a warning that the Russians expect them to move faster and more decisively against what is regarded as a dangerous trend in Poland. But they also face increased demands by their own party's rank and file for democratic reforms. Page 6

England beat Barbados

England beat Barbados by 11 runs in the last over of a one-day match yesterday, after Gooch had underperformed the batting with 84 out of 207 for six. In the Barbados innings, Stevenson and Botham each took four wickets. Page 10

Greece: A series of severe earthquakes rocked southern Greece, including Athens, causing widespread damage to village houses. Page 5

Finance in the Arab World: A 12-page Special Report on the growth of banking and the impact of the oil surpluses.

Classified advertisements: Personal, pages 22, 24; Appointments, 21; Car buyers' guide, 22

Obituary, page 14
Mr Frank Maguire, MP, Mr Torin Trenchard

Stock markets: Equities were dull as investors closed their positions ahead of the Budget. Gilt showed a similar picture with falls of up to 51. The FT-100 closed 3.8 points down at 436.2.

Financial Editor: Barclays slow overseas
Business features: Frank Vogt describes the impact of America's mutual funds on commercial banking; Ross Davies's Business Diary

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Sport, pages 10, 11
Football: Ball rejoins Southampton; Features on the Cup-tickets; Wolverhampton and Middlesbrough; Motor racing; Warring bodies reach agreement; Ice skating; Confident start by British champions in world ice dance championships

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Liberals and Social Democrats use PR voting to celebrate first joint parliamentary motion

By Fred Emery

Political Editor

Liberal and Social Democrat MPs in the House of Commons yesterday celebrated their first joint parliamentary motion since the Social Democrats defected from Labour.

Used briefly as a device to provoke debate, it urged the adoption of proportional representation in the 1984 election to the European Parliament, under the uniform system all EEC members expect to agree. After drawing Labour opposition and government reserve the motion was withdrawn.

In the Commons the defectors got publicity from a string of left-wing Labour interventions to the effect that they were "cheats" (Mr Robert Cray) or "swindling the electors" (Mr Dennis Skinner) for not resigning and fighting by-elections.

At one stage the Speaker, Mr George Thomas, observed that there would be trouble for the Government if it tried taking power to declare wars by-elections while MPs were still

in the House and did not wish to leave it.

But Mr Cray, MP for Keighley, claimed later that the Speaker had misunderstood him. He had been asking for a general resolution, not government writs, to make clear that those MPs who switched parties had an obligation to resign.

That is all, in effect, propaganda, although there is no question but that left-wing Labour MPs deeply resent the presence of the Social Democrats and wish Mr Michael Foot, Leader of the Opposition, to join in making things uncomfortable for them.

Outside the Chamber the Liberals and Social Democrats held their first weekly meeting to discuss parliamentary tactics and policy. They will put up two speakers on different days during the Budget debates, with Mr William Rodgers intending to speak for the Social Democrats.

The Social Democrats have also written to the Speaker asking for a room in the Com-

mons. That matter is likely to be referred to the Commons Services Committee, where Labour's members could be expected to be uncooperative.

Pairing ban: Conservative MPs were last night forbidden by Michael Jopling, the Government Chief Whip, to enter into pairing arrangements with Labour members who have resigned their whip and become Social Democrats (the Press Association reports).

The ban starts next Monday. It will mean that all the Conservative MPs involved will have to remain in the Commons until all hours of the night whenever a vote, however unimportant, is contemplated.

A move out of the Labour Party's constitutional crisis was quietly set in motion last night by its largest trade union affiliate.

The Transport and General Workers' Union, whose votes have been consistently cast for left-wing policies on constitutional reform, indicated that its 1,250,000 block vote might eventually be cast for a formula giving Labour MPs half the votes in elections for the party leader.

The crisis of political conscience in the union is to be taken up at a special executive meeting on May 14, before talks a month later on the union's political attitudes.

In private the union's leaders are talking about an accommodation that will bring Labour MPs and the unions into an agreement on the voting pattern for an electoral college that gives MPs half of the available votes, with the rest divided between constituency Labour parties and the unions.

That 50-25-25 formula is re-emerging as a compromise between the unions and Labour MPs. Once the prospect of the transport workers' union support for such a formula becomes public, it is likely to attract a large measure of support.

Earlier in the day more than 200 members of the same union

Civil Service strike will affect public services, airports and Nato exercise

Lord Soames stands firm on 7% pay limit

By David Felton

Labour Reporter

The Government yesterday reaffirmed its determination to restrict pay increases to civil servants to 7 per cent. Meanwhile, union leaders said they were confident that more than 400,000 white-collar staff would be on strike on Monday.

Against the background of the one-day strike, which will cause widespread disruption to public services, Lord Soames, Lord President of the Council and minister responsible for the Civil Service, told the Lords last night that 7 per cent was "simply as far as we can go".

He went on: "There are many people in private industry who would feel that such an offer at this time could be classed as a good one, given the general economic climate and the relative job security that civil servants enjoy".

He said other groups of workers, such as a million local authority manual staff and teachers in England, Wales and Scotland, had shown they were prepared to

settle at about the same level within the 6 per cent cash limit imposed by the Government.

Lord Soames emphasized the Government's willingness to restructure the pay research system which governed civil servants' pay before it was suspended last year. He said the system "no longer commands general confidence" and welcomed discussions with the unions on a future system.

The nine unions, representing 530,000 white-collar staff, are insisting that as well as increasing the pay offer the Government should give a firm guarantee on a new pay system based on comparability for next year's negotiations.

It became clear last night that in addition to the closure of all the biggest airports in the United Kingdom because of Monday's strike, driving tests, flood control and House of Commons operations may be affected.

Mr William Kendall, secretary-general of the Council of Civil Service Unions, said that the Government had shown

"banging incompetence" in its handling of civil servants and had not been able to offer the unions any guarantees on an orderly system of future pay bargaining.

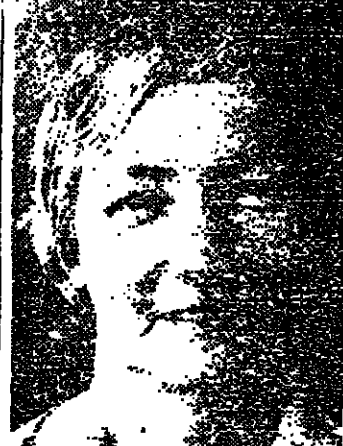
He predicted that about 80 per cent of the union members would not report for work on Monday as an indication of their hostility towards the Government's "dismissive" attitude to the Civil Service.

The unions have argued that the Government would be able to increase pay by offering to double figures because of projected under-spending on pay.

They also claim that during negotiations the Government has mentioned the possibility of diverting funds from areas within its budget, to help to fund a pay increase for white-collar staff.

Government officials said last night that all possibilities had been considered, and 7 per cent was the most the country could afford for Civil Service pay increases.

Parliamentary report, page 8
Letters, page 13



Mrs Buchanan: "Taxpayers are subsidizing Etonians"

Eton getting subsidized EEC butter

By George Clark

Political Correspondent

Eton College has been receiving cheap butter for the last six years through an EEC scheme for charitable organizations, hospitals and nursing homes. It has reportedly saved about £10,000 a year on food bills.

This allegation, based on information obtained by Mrs Janet Buchanan, Labour MEP for Glasgow, is made in the latest issue of *Labour Weekly*.

Eton, as the bursar's office of the school confirmed, is one of many charitable organizations taking the benefit of a scheme operated by the EEC intervention board for agricultural produce, based in Reading, not far from the college.

The scheme was devised, for application in EEC countries, to dispose of the huge butter surplus by means of cut-price sales to charities, hospitals, nursing homes and schools in both the public and the private sector.

According to the paper, the 1,200 pupils at Eton, whose parents pay £3,300 a year in fees, are entitled to about 450lb of butter each week at 32p a pound. The housewife pays 36p to 38p for a half a pound.

Mrs Buchanan said: "Taxpayers are subsidizing butter for Eton pupils, while every day we hear local authorities are cutting school meals services. Will the Tories with children at Eton complain as loudly about this as they did when Communism was sold to Russia?"

According to *Labour Weekly*, the bursar's office at Eton College said the school has been making applications to the intervention board since 1974, but it would take quite a time to work out how much the school had received.

Parliamentary report, page 8

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Heart patient dies

Mr William Tromans, aged 44, from Witley, West Midlands, who had a heart transplant at Papworth Hospital, near Cambridge, two months ago, has died. He was the seventh of the hospital's 17 transplant patients to die.

The doctor, to say why he raised the matter, was Mr Rooker, Mr Perry Barr, also questions the authority on which Mr Wedgwood Benn suggested at last year's party conference that up to 1,000 Labour peers could be created to pass crucial legislation.

Mr Rooker discloses that no practical work has been done by the party machine on the Lords issue.

Abolition of the Monarchy would lose votes, MP says

By Our Political Staff

A leading article in last week's *Labour Weekly* suggesting that the party could turn its attention to the Monarchy when it had abolished the House of Lords is derided in this week's issue by Mr Jeffrey Rooker, a left-winger and spokesman on social services.

Mr Rooker says that any more irrelevant, vote-losing and time-wasting political issue for Labour to raise on the agenda than the Monarchy, he says

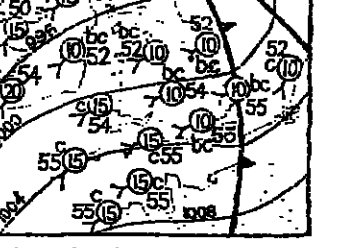
and challenges Mr Donald Ross, the editor, to say why he raised the matter.

Mr Rooker, MP for Birmingham, Perry Barr, also questions the authority on which Mr Wedgwood Benn suggested at last year's party conference that up to 1,000 Labour peers could be created to pass crucial legislation.

Mr Rooker discloses that no practical work has been done by the party machine on the Lords issue.

Weather forecast and recordings

NOON TODAY: Pressure is shown in millibars. FRONTS: Warm, Cold, Occluded. Symbols are on advancing edge.



max temp 11° to 13°C (52° to 55°F). Channel Islands, SW England, Wales, Isle of Man, N Ireland: Sunny intervals, becoming cloudy, rain later; wind SW, moderate, increasing to strong; max temp 11° to 13°C (52° to 55°F).

Borders, Edinburgh and Dundee, Central Highlands, NW Scotland: Outbreaks of rain, snow on hills, becoming brighter and drier; wind SE, fresh to strong, veering SW, moderate; max temp 9°C to 10°C (48° to 50°F).

Aberdeen, Moray Firth, NE Scotland, Orkney, Shetland: Snow turning to rain, becoming drier; wind SE strong, veering SW, moderate; max temp 6° to 7°C (43° to 45°F).

Shetland: Sleet or snow, heavy at times, moderate accumulations; wind SE, strong to gale; max temp 2°C (36°F).

Outlook for tomorrow and Sunday: Unsettled and mild; all areas will have outbreaks of rain but also sunny intervals.

Sea passages: S. North Sea, Straits of Dover, English Channel: R, rain; S, sun; NW, snow.

WEATHER REPORTS YESTERDAY MIDDAY: C, cloud; f, fair; R, rain; S, sun; NW, snow.

Overseas selling prices: Australia 80, Canada 80, Hong Kong 80, India 80, Japan 80, New Zealand 80, Singapore 80, South Africa 80, Switzerland 80, Taiwan 80, Thailand 80, USA 80, West Indies 80, Zaire 80.

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Fairness over ban on marches is pledged

By Hugh Noyes

Parliamentary Correspondent

Westminster

There was widespread support in the Commons yesterday for Mr William Whitelaw's decision to agree to the request from Scotland Yard to ban all political marches in London until the end of the month.

Some Tory MPs, however, urged the Home Secretary to ensure that the ban would be completely evenhanded in dealing with organizations of the right and the left. Otherwise, he would simply add to the discontent, according to Mr Alan Clark, Conservative MP for Plymouth, Devon.

There could be nothing more overtly racist and criminal, Mr Clark said, than the behaviour of the young thugs in the march through Southwark on Monday, when they broke into shops, terrorized the white population and shouted objectionable slogans about the monarchy.

Mr Whitelaw's replies to both sides of the House showed him to be admirably evenhanded. In the last traditions of the Home Office, the march on Monday disrespected everyone, and it was only fair to say that it disrespected some of its organizers, he said.

Explaining his ban on marches, which will have the effect of preventing the National Front march planned for tomorrow, which would have gone past the house in Lewisham where 13 young

black people died in a fire six weeks ago, the Home Secretary told MPs that there had to be clear evidence of a risk of racial disorder.

There could be no question of a chief officer of police applying for a ban, or of the Home Secretary granting one, on the basis of liking or not liking a particular organization.

Although he was not in favour of banning marches, there were times in the public interest when that had to be done.

Mr Whitelaw pointed out that under the public order Act neither the police in their application for a ban nor he as Home Secretary could pick and choose within a police area. It had to be a total ban throughout the whole of the Metropolitan area.

Lewisham alert: Police are standing by for possible trouble in Lewisham on Saturday despite the ban on the National Front march there (the Press Association reports).

Senior Scotland Yard officers are taking into account a statement last night by the Anti-Nazi League which calls on "all anti-racists to come on to the streets of Lewisham this Saturday and oppose them".

Seal protest goes on: Organizers of a big march in protest against seal hunting planned for Monday said yesterday that their protest would go ahead despite the ban.

Parliamentary report, page 8

TGWU change may end party crisis

By Paul Routledge

Labour Editor

Westminster

Party's constitutional crisis was quietly set in motion last night by its largest trade union affiliate.

The Transport and General Workers' Union, whose votes have been consistently cast for left-wing policies on constitutional reform, indicated that its 1,250,000 block vote might eventually be cast for a formula giving Labour MPs half the votes in elections for the party leader.

The crisis of political conscience in the union is to be taken up at a special executive meeting on May 14, before talks a month later on the union's political attitudes.

In private the union's leaders are talking about an accommodation that will bring Labour MPs and the unions into an agreement on the voting pattern for an electoral college that gives MPs half of the available votes, with the rest divided between constituency Labour parties and the unions.

That 50-25-25 formula is re-emerging as a compromise between the unions and Labour MPs. Once the prospect of the transport workers' union support for such a formula becomes public, it is likely to attract a large measure of support.

Earlier in the day more than 200 members of the same union

settle at about the same level within the 6 per cent cash limit imposed by the Government.

Lord Soames emphasized the Government's willingness to restructure the pay research system which governed civil servants' pay before it was suspended last year. He said the system "no longer commands general confidence" and welcomed discussions with the unions on a future system.

The nine unions, representing 530,000 white-collar staff, are insisting that as well as increasing the pay offer the Government should give a firm guarantee on a new pay system based on comparability for next year's negotiations.

It became clear last night that in addition to the closure of all the biggest airports in the United Kingdom because of Monday's strike, driving tests, flood control and House of Commons operations may be affected.

Mr William Kendall, secretary-general of the Council of Civil Service Unions, said that the Government had shown

"banging incompetence" in its handling of civil servants and had not been able to offer the unions any guarantees on an orderly system of future pay bargaining.

He predicted that about 80 per cent of the union members would not report for work on Monday as an indication of their hostility towards the Government's "dismissive" attitude to the Civil Service.

The unions have argued that the Government would be able to increase pay by offering to double figures because of projected under-spending on pay.

They also claim that during negotiations the Government has mentioned the possibility of diverting funds from areas within its budget, to help to fund a pay increase for white-collar staff.

Government officials said last night that all possibilities had been considered, and 7 per cent was the most the country could afford for Civil Service pay increases.

Parliamentary report, page 8

Letters, page 13

Fixed fines for drivers are backed

By a Staff Reporter

Westminster

Proposals by a working party for Continental-style fixed penalty fines for a wide range of traffic offences were welcomed yesterday by motoring organizations, the Magistrates' Association and the Police Federation.

Under ideas formulated by a joint working party from the Department of Transport, the Home Office, the Lord Chancellor's Office and other organizations, the number of motoring offences coming before the courts could be cut by 500,000 annually, leaving magistrates to handle more serious matters.

The fines for offences such as speeding, failure to observe a policeman's traffic directions, and many prohibited vehicle defects, would be administered by a system similar to that for parking tickets. However, the proposals being considered by Mr Norman Fowler, Secretary of State for Transport, would not include serious offences.

Union hands over delayed letters

The National and Local

Guardian Association said last night that its members had handed over all the letters they had held up at Lambeth town hall, London, as part of industrial action over the sale of council houses.

"Until the dispute is resolved, members will still refuse to process applications, and it is unlikely that houses will be sold", the union said.

Cool Rowland response to NUJ

By Donald Macintyre

Labour Reporter

Journalists of *The Observer* have been told by Mr Roland "Tiny" Rowland that he views with particular concern the possibility that Lonrho's bid to buy the paper should be referred to the monopolies commission.

In a letter to the newspaper's National Union of Journalists' chapel Mr Rowland makes clear that he is seeking an assurance that it recognizes that if the paper fails to make profits the proprietor will require changes to be made within the organization in order to redress any possible failure of the paper.

While reaffirming oral assurances of the continued editorial independence of the paper under prospective Lonrho ownership, Mr Rowland's letter, sent on Wednesday, shows a cool response to some of the chapel's detailed demands.

The journalists voted last

Package holiday flights may beat air strike

By Arthur Reed

Air Correspondent

Westminster

Some package holiday airlines are hoping to maintain their normal timetable of flights from provincial airports in Britain on Monday, when many air services will be affected by a strike of Civil Service unions, including air traffic controllers.

Some such airports, including Luton, Bournemouth, Newcastle, Teesside and East Midlands, have their own air traffic control staff, who are not affected by the dispute, which is over a pay claim.

Thomson Holidays and Cosmos, two of the biggest package tour companies, have told passengers booked with them to go to those airports on Monday. Thomson said they planned to make 20 flights with a total of 2,200 holidaymakers to ski resorts and Mediterranean beach resorts from 11

regional airports on the day of the strike.

Thomson said: "We are telling people to turn up as normal, and we are hoping that by the end of Monday everybody will get away".

Heathrow and Gatwick, the two main airports serving London, will be most affected by the strike. Britannia Airways, which specializes in package holiday flights, said yesterday it intended to make passenger flights to return to work, but to fly on its services from Gatwick, to Bournemouth airport.

Passengers due to leave on holiday flights from Glasgow and Edinburgh airports, which will also be affected by the strike, will be taken by coach to Newcastle.

Heathrow and Gatwick airports will be closed from one minute past midnight on Monday morning until one minute to midnight on Monday night.

First water workers accept 13%

By Our Labour Staff

Westminster

Water and sewerage workers in Yorkshire yesterday became the first to accept the 13 per cent pay offer from the employers, that led national union officials to believe that the offer would be accepted by all 32,000 manual workers in England and Wales.

A conference of delegates representing about 1,700 members of the General and Municipal Workers' Union (GMWU) in Leeds voted to accept the offer, which had been strongly recommended by the union leadership.

Earlier in the day more than 200 members of the same union

Power men reject offer of 11%

By a Staff Reporter

Westminster

Pay talks for 96,000 power supply workers were adjourned last night after union leaders refused to accept pay rises of about 11 per cent.

The unions say they will not settle for less than the 13 per cent deal agreed in the coal mining industry.

Union leaders do not expect any immediate action from their members because the Electricity Council promised to look at their figures and meet the unions again on April 2.

Mr John Edmunds, the union negotiator's secretary, said yesterday: "If we do not receive a better offer on April 2, we shall be moving into a very dangerous situation."

Dublin mayor is kicked as Paisley group protests

From Christopher Thomas

Belfast

A good will visit by councillors from Dublin was disrupted in a rowdy demonstration in central Belfast yesterday by the Rev Ian Paisley and several of his supporters.

Mr Fergus O'Brien, Lord Mayor of Dublin, was kicked and jostled as Mr Paisley and his followers burst through the security gate at the Europa hotel, where the delegation had arrived for lunch with their civic hosts.

Mr John Carson, Lord Mayor of Belfast, was also kicked as the demonstrators occupied the central foyer. The police arrived in strength.

The delegation, which was held up by a bomb alert on the Dublin-Belfast railway line, was to have lunch at the City Hall but made a sudden diversion to the Europa in the hope of avoiding the demonstrators.

The ploy did not work and the Dublin delegation was greeted with several dozen placards and shouts from Mr Paisley of "Go home".

Mr Paisley said later: "These men are from parties in Eire who claim territorial rights in Ulster and give sanction to men of violence".

Mr Brendan Lynch, one of the Dublin councillors, said he was twice shouldered by Mr Paisley, and so he retaliated.

Government help for new Bill on the disabled

By Our Political Staff

Westminster

The Government is prepared to give every assistance to Mr Dafydd Wigley, Plaid Cymru MP for Caernarvon, in the preparation of a new Bill to replace his Disabled Persons Bill, designed to make further provision for access to public buildings by disabled people.

Mr Pym, Chancellor of the Duchy of Lancaster and Leader of the Commons, gave this assurance to Mr Wigley yesterday in the Commons. He said that the new Bill would reflect the terms of a Commons motion which had been signed by 324 MPs. That calls for legislation "to help safeguard the provision of suitable means of access for disabled persons to buildings used by the public".

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HOME NEWS

The silent Irish MP dies aged 51

Mr Frank Maguire, Independent MP for Fermanagh and South Tyrone, died in hospital in Enniskillen yesterday.

Mr Maguire, aged 51, who lived above the public house he owned at Lisnassack, was an outspoken critic of conditions for Irish prisoners in Northern Ireland and Britain.

Mr Maguire captured the seat in the October, 1974, election, and increased his majority in 1979.

Crucial occasions: Mr Maguire is remembered most at Westminster for his almost complete absence as an MP—except for the crucial occasion when his vote might have swung the end of the last Labour Government (Our Political Editor writes). It finally did so by an irony on March 28, 1979, when he flew all the way from his public house to abstain on the crucial confidence division which the Callaghan Government lost by one vote.

Had he voted with Labour, as he had frequently done, the tied vote would have been decided in Mr Callaghan's favour by the Speaker's casting vote. He never made a Commons speech nor put a question, but on rare occasions was known to have intervened briefly, usually from a sedentary position.

Mr Maguire was born in 1929 in Fermanagh and South Tyrone. He was a member of the House of Commons from 1974 to 1979. He was a member of the House of Commons from 1974 to 1979. He was a member of the House of Commons from 1974 to 1979.

Counties are accused of subservience in education policies

By Diana Geddes Education Correspondent

A bitter attack on the alleged subservience of the Association of County Councils (ACC) to the will of the Government was made yesterday at a meeting of the Association of Metropolitan Authorities' education committee.

Sir Ashley Bramall, leader of the Inner London Education Authority, said that a joint local government view on educational matters had become virtually impossible because the Association of County Councils takes the view that it must do what the Government says.

The ACC clearly regarded its loyalty to the Government as superior to its loyalty to local government. Sir Ashley added that no one was suggesting that the Labour-controlled ACC and the Conservative-controlled ACC should see eye to eye on every question.

What I am talking about is a situation where we have all up to a certain point said one thing, and then the ACC suddenly disagrees because the Government has put pressure on it—and it capitulates completely.

He gave as examples the ACC's report for the new block grant arrangements for the rare support grant, the acquiescence to the 6 per cent pay limit in the public sector, and its agreement to open the negotiations on teachers' pay with a 4 per cent offer.

The Council of Local Educa-

tion Authorities (CLEA), which is supposed to present a united local government voice on education in the AMA's and ACC's negotiations with the Government, was now "the voice of the Government's penetration into local government", he said.

Mrs Angela Rumbold, former Conservative chairman of the AMA's education committee, begged the AMA not to sever its relations with the ACC, "otherwise higher education will be taken away from local government, and that will be the beginning of the end of local government".

Mrs Rumbold was referring to leaked Government proposals to remove all higher education from local authorities and to put it under the financial and administrative control of a single national body for higher education in the public sector. The proposals are due to go to the Cabinet before Easter.

The committee passed by 20 votes to 10 a motion calling on the AMA to "critically examine its policy on cooperation with the ACC, including its participation in CLEA". Voting was strictly along party lines, with Conservatives voting against the motion.

Schools Council review: Mrs Nancy Trenaman, principal of St Anne's College, Oxford, has been appointed by the Government to carry out a review and make recommendations on the functions, constitution and methods of work on the Schools Council.



Ken Goodwin (centre), star of "That's Showbiz", with Mr and Mrs Kendal-Lane, its producers, in London yesterday.

Producer wins a round in fight to stage Sunday shows

By Martin Huckerby Theatre Reporter

Mr Stephen Kendal-Lane, the producer of *That's Showbiz*, yesterday won a new round in his fight to present Sunday performances of the variety show. He gained a High Court injunction aimed at preventing Equity, the actors' union, from stopping the Sunday shows in London.

On Wednesday the London Theatre Council, formed by

Equity and the Society of West End Theatre, found Kendal-Lane Productions in breach of the agreement governing West End productions, and deregistered the company as a producer. Equity yesterday issued a further injunction to its 32 members in the east of the show that they should not perform on Sundays.

However, in the High Court Mr Justice Maise granted an injunction restraining the coun-

cil and its agents, specifically Equity, from acting on the deregistration decision.

Mr Philip Saunders, Mr Kendal-Lane's solicitor, said last night that a writ would be served on Equity today. The effect of the injunction was to prevent Equity from interfering with the show.

The injunction has delighted the cast in the show at the Phoenix Theatre, who are happy

to perform on Sunday in return for having Monday and Tuesday off.

That's Showbiz has been attracting poor audiences early in the week but better houses at the weekend, so Mr Kendal-Lane decided to present a Sunday show. The first one, last Sunday, drew an audience variously estimated as 150 or just over 200; the theatre seats about 1,000.

£2,500 for woman butted by Welsh ram

From Our Correspondent Llandudno

A woman was awarded agreed damages of £2,500 in a civil action in the High Court at Caernarfon yesterday as compensation for being attacked by a ram.

Mrs Eva Hughes, aged 37, of Bronallt, Llangallo, Anglesey, had been butted repeatedly by a young Welsh mountain ram when she walked along a country road near her home in 1977. She had alleged that Mr Robert Wyn Jones, a smallholder of Llangallo, had been negligent in allowing the ram to be on the highway.

Mr Alex Carlisle, her counsel, told Mr Justice Russell: "I am pleased to be able to tell you that both parties have come to terms and that you will not be troubled by the case of the ram that rammed".

After he had mentioned the terms of the settlement, Mr David Clark, who represented Mr Jones, retorted: "On behalf of the ram, I agree". Mrs Hughes suffered a broken leg and was in hospital for a fortnight and required bone grafting.

"It was a terrible ordeal I will never forget", she said after the case. The ram butted her in the knee and I fell over. I managed to drag myself along the road and rolled over a low wall into a field to try and get away from him. But then he jumped over into the field and butted me again several times.

Housing in crisis, 3: New life for old Renovation seen as an answer in two towns

By John Young

Despite its years of decline, and its seemingly intractable economic difficulties, Liverpool remains a great if troubled city. In contrast Newport, a few miles inside south Wales, is a town of few distinctive features, if one expects a rather imposing civic centre.

What both places have in common is a provision for small terrace houses, built to what now seem cramped and spartan standards, which have survived both wartime bombing and postwar comprehensive redevelopment.

Mr Barry Nutton is chief executive of one of Britain's largest housing associations, Merseyside Improved Houses. The association was founded in 1928, but its main impact has been only recent. Twelve years ago it had a mere 300 properties; today it owns and manages more than 7,000.

It has been particularly active in the inner area, where nearly a third of the population is of pensionable age. A typical small house is occupied by private tenants and has been virtually neglected for the past 50 years.

The acquisition and modernisation of such houses has been one of the association's principal aims. It is not a profitable business. The Housing Act 1980 permits rent increases in two stages in what is deemed a fair level, but even then, Mr Nutton says, income falls far short of costs.

"Effectively we have to write off the capital. We have been criticised as extravagant, and I would be the first to admit that associations are an expensive means of providing housing. But we are doing a job which local authorities have failed to do."

The Government's order last September to halt all further capital spending has had a particularly bad effect on so-called staged contracts, where tenants have been moved into tempo-

rary accommodation on the understanding that they would be able to return to their renovated homes within four to five months.

"Now we have to tell them that we are sorry but we don't know when they can go back", he says. "In other cases we have had to leave people where they are, with rents as low as £28 a week, and they are reluctant to increase until we have actually done the improvements."

He is scathing about what he calls the "nanny attitude" of Department of the Environment civil servants which, he claims, has had a grave effect on morale. "At present we have architects and draughtsmen working on schemes which we don't know yet will be allowed to go ahead."

"We have been told we can proceed with one or two schemes provided the cost is kept to last September's levels, which is exploiting builders who are desperate for work."

"We don't even know our allocation for next year."

Two hundred miles south, Newport council has for some years been operating what is, in relative terms, probably the largest and most ambitious renovation programme by any local authority in Britain. Of 45,000 houses in the town, 10,000 are in designated housing action areas and general improvement areas, and work is at present under way on 3,000.

Some Labour councillors have found it hard to rid themselves of the ingrained belief that it is the council's primary duty to build new housing. But on the whole, according to David Bratton, who is in charge of the programme, there is now a "political commitment" to renovation.

Next: Aylesbury

Tory MP seeks fourth TV channel delay

By David Hewson

A Conservative backbencher called yesterday for the fourth television channel to be postponed on the ground that it could lose the Exchequer £75m a year in commercial television revenues.

After being told in the Commons that the Government was pressing ahead with the planned start for the channel in the autumn of 1982, Mr John Watson, MP for Skipton, said he would be consulting other backbenchers about continuing the campaign for the channel's postponement.

The profits of the independent television companies this financial year would be about £108m, of which £81m would go to the Exchequer in the form of levy, Mr Watson said. In 1983-84 the difference between income and expenditure would fall to about £10m because of Channel Four, its Welsh service and the introduction of commercial breakfast television.

GPs and dentists to work at department store

By Nicholas Timmins

Debenhams, the department store group, has reached agreement in principle with the British Medical Association and the British Dental Association to set up surgeries for doctors and dentists at its Oxford Street store in London, near an optician's already installed there.

The group will consider extending the idea to about 50 of its 71 stores if the Oxford Street scheme is successful.

Mr Robert Foster, a Debenhams executive, said yesterday that final plans had still to be submitted to the BMA. He hoped the new surgeries would open within three to six months.

Clinics plan: Air-Call, the communications company that runs the business side of the BMA's deputising services, is considering launching private general practice from two clinics in north London.

Arts college clash on cuts

By Our Theatre Reporter

Mr Richard Hoggart, the warden of Goldsmiths' College, London, and vice-chairman of the Arts Council, has agreed to speak to an open meeting of students at the college later this month. It results from the picking of a lecture due to have been given by him on Wednesday, by students protesting at cuts made by the council recently.

The students' union at Goldsmiths' passed a motion last week criticizing him for condoning the removal of grants

to 41 arts organizations. The picket was organized for a lecture he was due to give to the college's drama department and the lecture was cancelled.

Dr Hoggart said yesterday that he had agreed to meet the students and to answer questions, if they withdrew the motion.

Mr Paul Blackman, a member of the students' union council, said that had been done, pending the meeting. Many of the students could be affected by the Arts Council cuts, he said.

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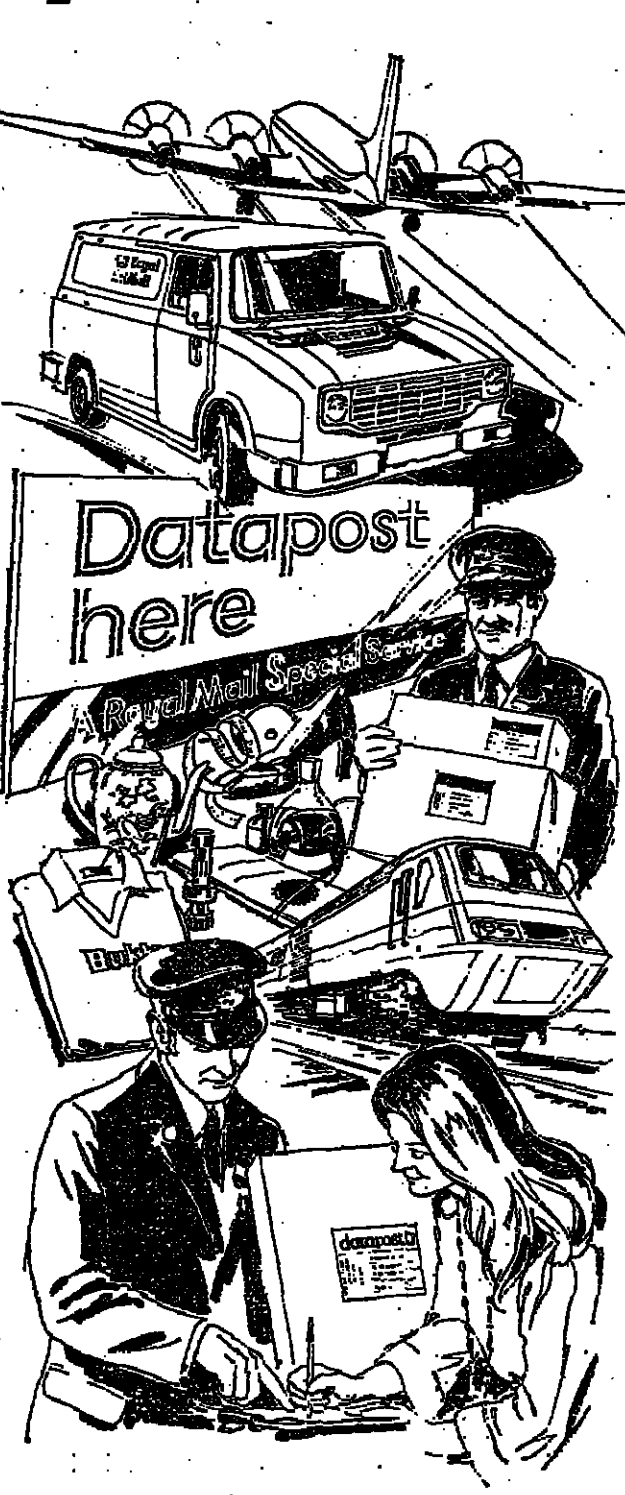
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Defence team in siege murder trial is dismissed by accused

From Arthur Osmau
Birmingham

David Pagett, accused of murdering Miss Kinchin, yesterday dismissed his defence representatives and questioned four witnesses himself. But before the court adjourned he indicated that he wanted to re-examine his two counsel and his solicitor.

At one point Mr Pagett asked Mr Justice Park: "Would you not put your questions to the witness box yet? I was not concerned with innuendoes and the tone of your voice."

Mr Pagett, aged 31, a labourer, of Dealands Road, Rubery, Birmingham, has denied murdering Miss Kinchin, aged 16, who died last July a month after being hit by three police bullets. Miss Kinchin, who was pregnant, was alleged to have been shot in a field by Mr Pagett when he fired at the police with a shotgun, and officers returned the fire.

He has also denied further charges of attempted murder, unlawfully taking away Miss Kinchin and Mr Josephine Wood, her mother. Illegal possession of a shotgun and wounding with a shotgun, causing grievous bodily harm.

Mr Rudi Narayan, for the defence, withdrew his client had handed him a note. Mrs Wood wept as Mr Pagett then took over the cross-examination.

As she was being asked what her daughter had told her in the ambulance shortly after the shooting she burst into tears and Mr Pagett said: "There will be times when I appear to be hard on you, but I ask the

court to understand my position as well as Mrs Wood's."

When asked again what her daughter had told her in the ambulance, Mrs Wood replied: "She said 'Mom, I've been shot. I'm dying.' Mr Pagett: 'You gathered at that early stage that I had shot your daughter—my fiancée?' Mrs Wood: 'She wasn't your fiancée.'"

Mr Pagett later accused the police of "covering up" their part in the shooting and also claimed that there had been an attempt to interfere with a witness.

Subsequently Mr Pagett agreed to re-examine Mr Narayan and other defence representatives and the judge said: "The court has sought to comply with all your wishes. I am not prepared to allow this trial to linger on in the way it has been going on up to now, with constant adjournments for your convenience."

"If you tell me that you wish to re-examine Mr Narayan to defend you in this trial I will give you the opportunity of talking to him. If you have no such wish the trial will continue."

The judge then told the jury: "Very few trials have encountered the difficulties that this trial has had over the last few days. You have heard the latest exchanges between myself and the defendant."

"Having regard to the fact that the defendant faces a number of charges, including murder, I take the view that he should be given the opportunity to instruct counsel again although he resisted all my efforts to dissuade him from getting rid of his counsel."

The trial continues today.

Libyans fear 'hit teams' in Britain

By Stewart Tendler
Crime Reporter

Libyan exiles in Britain fear they could be the target for fresh attacks by supporters of Colonel Gaddafi. One source in the Libyan community said yesterday that the British Government has been alerted to the fact that six potential assassins are believed to have arrived in Britain.

Special Branch officers at Scotland Yard refused to comment on the claims of a Libyan assassin, but they believe that Colonel Gaddafi has initiated fresh attacks on their numbers.

This week the Libyan leader marked the fourth anniversary of the foundation of the "people's congresses" in his country by declaring that the masses had the right to liquidate their enemies at home and abroad. Libyan revolutionary committees were also reported to have reaffirmed the need.

A year ago Libyan assassins struck twice in London within a few weeks, killing a journalist and a lawyer. Three men were convicted later at the Central Criminal Court but another three escaped police detection.

The six had travelled from Libya and lived in London for some weeks. They were trained by the police were well trained, tough professionals.

A few months after the attacks Mr Musa Kusa, Libya's chief representative in Britain, was expelled after repeating to The Times death threats against exiles.

The assassination attacks petered out both in Britain and other European countries but last week a Libyan gunman tried to attack an airline passenger in Rome and another in London, according to the source yesterday, believed that their opponents are still trying to silence a group of people said to number up to 12. One of that group is said to have narrowly escaped attack recently when a friend checked an apparently innocent meeting and discovered not one but two men waiting for him.

Invasion chief

Police at Colchester, Essex, were looking yesterday for a thief who broke into a youth centre and stole a space invader machine valued at £2,000.

Women admit helicopter jailbreak plot

Two women admitted at the Central Criminal Court yesterday that they took part in a plot to lift a prisoner out of Brixton jail, in London, by helicopter.

Margaret Parratt, aged 34, and Jacqueline O'Malley, aged 31, changed their pleas to guilty to conspiring to effect the escape of Brian Keenan. They were released on bail to be sentenced later.

The prosecution alleges that Mr Keenan was to be rescued

by armed men in a hijacked helicopter while he exercised in a wire enclosure, known as "the cage", in the prison grounds.

Five other people, including Mr Keenan and his wife, Christine Keenan, have denied taking part in the plot.

Mr David Jeffreys, for the prosecution, said both Mrs Parratt and Miss O'Malley had accompanied two men who were to have taken part in the operation.

Mrs Parratt, he said, made

Report commissioned by ratepayers cites £106,000 houses as most flagrant example of extravagance

Camden council faces bankruptcy after failing to fix next year's rate

By Ian Bradley

The difficulties besetting the London borough of Camden as a result of its last council meeting are the latest in a series of problems awaiting resolution.

On Wednesday night the council failed to agree a rate for the next financial year after combined opposition to the Labour majority from Conservatives, who want a drastic reduction in spending plans, and left-wing Labour councillors, who strongly object to the cuts that have already been made in the 1981-82 budget.

The borough faces bankruptcy unless a rate can be fixed by the end of this month. The council also faces the possibility of legal action because of two separate moves.

The district auditor has taken it to court after finding that supplementary payments made to manual workers since a strike in 1979 were unlawful. Last month a meeting of Labour councillors voted to end the payments from April 1.

The council has also been served with a writ issued by members of the Camden Ratepayers' Association, which was also served on 30 councillors, alleges overspending and deliberate disregard of duty.

As if that were not enough, members of the National Union of Public Employees (Nuppe) are threatening a series of lightning strikes in protest against the decision to end the supplementary payments and to reduce jobs in the building department.

Although the first strike, last Wednesday, had little effect on services, more disruption is threatened in the coming weeks.

But perhaps the most serious difficulty confronting Mr Roy Shaw, the council leader, is the charge of extravagance and waste in Camden's management of its financial affairs over the past five years, which was presented in a report published on Monday.

The 52-page report, The Cost of Camden, was written by Mr Alex Henney, former chief housing officer for Haringey and a special adviser to the Department of the Environment. It was commissioned by the Camden Commercial Ratepayers' Group.

It says that Camden spends proportionately more and has higher staffing levels than any other council, despite the social need being less than in many



Photograph by Bill Warhurst

Camden council's Alexandra Road housing development, one of three schemes that together cost more than £51m.

other areas. This year, for example, it has spent £491 for every resident, more than twice as much as neighbouring Westminster, which Mr Henney regards as the most similar London borough in terms of size, social mix and wealth.

The report also says that Camden employs 40.4 workers per 1,000 population, compared with 28.4 in Westminster and an average of 16 in England and Wales as a whole. If all local authorities were staffed at the Camden level there would be a million and a quarter more council employees.

Mr Shaw accepts that Camden is a high-spending borough and that it employs more people a head of population than any other authority. However, he rejects direct comparisons with Westminster or with any other London borough.

He says: "We have a unique combination of the very rich and the very poor in Camden, which is made up of the old metropolitan authorities of Hampstead, St Pancras and Holborn. We also have particular problems because of having three main line railway termini (King's Cross, St Pancras and Euston) in the borough."

"A large number of people arrive on our doorstep, as it were, and have to be put in bed and breakfast accommodation. In 1980 we housed the highest number of homeless families and persons of any London borough."

Mr Henney does not accept that Camden is an area of high deprivation. He points out, for example, that it has the second lowest proportion of semi-skilled and unskilled workers and the fourth lowest

percentage of children eligible for school meals of all London boroughs.

Mr Shaw maintains that many of these statistics are, in fact, a tribute to the success of the council's high-spending housing and social service departments in eradicating poverty and bad conditions. Comparable indicators at the beginning of the 1970s showed Camden to have the sixth lowest income of a household of all London boroughs.

He says that another special cost faced by the borough is the provision of social workers in hospitals, of which Camden has more than any other London borough.

Although The Hospital For Sick Children, in Great Ormond Street, is used by patients from all over the country, Camden has to meet the full cost of all

its social workers. He estimates that that costs £750,000 a year.

Mr Henney's report is particularly critical of Camden's housing record over the past 10 years. He says that delays in building new houses have been longer than in any other authority, and staff levels and costs in architects' and planning departments higher.

He also accuses the council of having built too unnecessarily high standards, using expensive materials.

He singles out three schemes, Highgate Newtown 1, Alexandra Road and Branch Hill. Together they cost more than £61m and provided 835 units. Mr Henney says that, properly spent, the same amount could have provided housing for a further 750 to 1,500 families.

The Branch Hill development, on the edge of Hampstead

Heath, is regarded by Camden critics as the most flagrant example of extravagance. Each of the 42 houses cost an average of £105,000 to build. At present council tenants are paying weekly rents of between £16.04 and £17.32 for four-bedroom houses there.

Mr Shaw concedes that some of Camden's housing schemes have been extravagant and wasteful. He says: "The architects have been rather liberal in interpreting the council's specifications. What we were trying to do was to get away from conventional dreary tower blocks for housing council tenants. We wanted some imaginative schemes. Unfortunately, it just did not come off."

On the costs of the Branch Hill development, he says that it was one of very few sites available to the borough at the time. Much of the cost lay in providing services for the site. Those are now available and would bring down significantly the cost of any further building.

Mr Henney also criticises delays in implementing plans in the council's architects' and planning departments. He says the Alexandra Road development took 80 man-years of architects' time and he adds that £334,000 in fees has so far been wasted in producing abortive plans for the development of a site at Swiss Cottage that has been vacant since it was bought by Hampstead Borough Council in 1955.

Mr Shaw said: "This is a very sad story. We have had dozens of schemes for development, but they have all foundered either because of government curbs on capital to be spent or because the local residents have changed their minds about what they would like there."

Mr Henney believes the council has been allowed to get away with profligate behaviour because of its popularity. He says only a quarter of the rates, less than half the proportion of most other boroughs.

He also blames the "radical chic", who he says dominate the council. "They have deceived themselves and the electorate that Camden is a place of enormous social need."

Mr Shaw replies: "We are not ashamed of being a high-spending council that provides good services. We have an excellent reputation. We know their rights, and if they do not know their rights, the people in Hampstead will tell them what they are."

Powers of tax inspectors 'should be curtailed'

By Frances Gibb

The powers of Customs and Excise and Inland Revenue inspectors to enter and search premises, seize documents and ask for information should be curtailed, the Law Society says in a memorandum published yesterday.

In its evidence to the committee under Lord Keith of Kinkel, set up by the Chancellor of the Exchequer last October to look at the department's enforcement powers, the society says the legislation giving the powers of entry and search should be repealed.

Instead there should be new legislation, standardising existing provisions relating to the wider powers of Customs and Excise in the same way as those of the Inland Revenue, and including various safeguards.

The memorandum, produced by the society's non-consciousness business committee, also says that its other chief concern is that the confidential relationship between a solicitor and client is protected.

Unless a solicitor is in receipt of income or gains, he should not have to disclose in reply to a request for information anything more than the identity of his client, and then only if the transaction is identified.

The prices of the offices of a solicitor should not be searched unless there are reasonable grounds to believe that he himself is fraudulent or a party to fraud, in which case the search should be confined to papers disclosing the affairs of the solicitor.

The Law Society adds that if a search of a client's papers is permitted, the warrant should

refer to a particular taxpayer and particular documents. "At all times the confidential relationship between a solicitor and his other clients should be respected."

The recommendations are put forward, the society says, on the basis that in some cases the public interest might require revenue officials to enter and search premises, but such powers should be controlled so as to protect as far as possible the liberty of the innocent citizen.

It urges certain safeguards to be incorporated in legislation. There should be a two-stage procedure for the issue of a warrant to search, as recommended by the Royal Commission on Criminal Procedure.

The application for the warrant should be made in writing, and where it is made to a magistrate or judge it should be in the form of a deposition and lodged at court.

The warrant should specify the object of the search and the premises in as precise detail as possible and there should be a time limit on searches.

Among other recommendations, some of which were mentioned in the House of Lords case on the Rossminster finance group in December, 1979, is that Customs and Excise should adopt a code of practice in relation to all back-duty investigations providing safeguards for the taxpayer; that the mere failure to make a VAT return should not constitute a criminal offence and that Customs and Excise should use the greatest possible care in exercising powers of forfeiture.

In brief

Severed fingers sewn back

Plastic surgeons yesterday completed a 22-hour operation to sew back three fingers which had been severed in an accident with a circular saw.

The fingers, on Mr David Nash's right hand, were sewn back at the plastic surgery unit at Frenchay Hospital, Bristol. They were saved by one of Mr Nash's workmates, who put them in a bag of ice while waiting for the ambulance.

Harman costs request

The all-party parliamentary penal affairs group has suggested that the Home Office should meet its own costs in its action against Miss Harriet Harman, leader of the National Council for Civil Liberties, for contempt of court for showing a journalist Home Office documents.

Nurse elects trial

Harold Dexter, aged 59, a nurse at Rampton Hospital, Nottinghamshire, elected trial by jury when he appeared before a magistrate yesterday charged with ill-treating Mr Richard Clive Winnick, a patient, on February 5, 1979. He was remanded on bail.

Trawler arrested

The Dutch trawler Hessel Vandenberg was arrested yesterday by the British fishery protection vessel HMS Orkney at sea off Grimsby, for allegedly using illegal nets in side Britain's 200 miles fishery limit.

Assault on girl

David Allen Bohling, aged 31, said to be living in a caravan at Alvanley, Cheshire, was sentenced to three years' imprisonment at Liverpool Crown Court yesterday after admitting kidnapping and indecently assaulting a girl, aged 11, at Wallasey.

Fined woman had £500

Miss Edith East, aged 80, a homeless woman, who was fined £15 yesterday after admitting being drunk in Worthing, was said by police to have had more than £500 with her when she was arrested.

Quits for hospitals

Hospitals in north Nottinghamshire are to use Continental quilts to take the druggery out of bed making or nurses and to save £50,000 a year in laundry bills.

Top salaries chairman

Lord Plowden has taken over from Lord Boyle of Handsworth as chairman of the Top Salaries Review Body, the Prime Minister announced yesterday.

Butlins buys hotel

Butlins has bought the 157-bedroom Grand Hotel at Llandudno, one of the biggest in Wales, for an undisclosed price.

More Home News, page 21

Expertise of WPC's 'dissipated'

By Our Crime Reporter

Police expertise in specialist areas such as dealing with rape victims and offences involving children has been reduced by the integration of police women in the service, according to an article in Police Review today.

Examining the Sex Discrimination Act, 1975, the magazine says changes were often made with little planning and led to the dismantling of police women units without thought to the consequences.

One result was that many young officers lack the expertise of their predecessors but are still expected at times to do the same job, as well as other duties.

Liaison with local social services and other agencies has suffered, as has the handling of cases such as those of missing young girls.

While police women have gained entry to special units such as the mounted and motorcycle branches, the Act has not brought any big increase in promotions.

It says that a number of forces are considering some replacement for the old police women's department.

Departments run with a voluntary complement would be the best compromise.

West Yorkshire to get nine new railway stations

From Ronald Kershaw
Leeds

Nine new railway stations are to be opened by West Yorkshire Passenger Transport Executive. The plan was approved at a meeting yesterday of West Yorkshire County Council's transportation committee.

The stations, to be financed by the executive, will cost between £70,000 and £110,000 each. It is expected that a total investment of £690,000 will yield, after four years, more than £400,000 a year profit at today's prices, from additional passenger traffic.

Five of the nine stations, most of which will be unmanned, will be built on the sites of stations closed under the Beeching contraction. West Yorkshire County Council said that the stations

would comprise two platforms and waiting rooms. The first is to be opened in 12 months at Crossflatts, near Bingley, on the Leeds-Keighley-Skipton line.

During next year stations will be built at Fitzwilliam, near Wakefield, and Slaithwaite, near Huddersfield, followed in 1983 by stations at Bramley, between Leeds and Bradford, Lightcliffe, near Halifax, and Salford, near Shipley. Beighton, near Huddersfield, East Garforth, and Hawkesworth, near Leeds, will complete the project in 1984.

All the stations are on commuter lines and will have car parks. The stations are part of the county council's public transport policy, which the passenger transport executive is responsible for carrying out.

The plan was welcomed last night by British Rail.

New rules for drug trials

By Nicholas Timmins

The British Medical Association has approved a new constitution for local ethical committees to enable them to check that research involving patients, including drug trials in general practice, are ethically sound.

The committees, one to each health district, will include two family doctors and a lay member, as well as hospital doctors,

a nurse and a specialist in community medicine.

The proposals will be sent to the medical royal colleges for approval and then to the Department of Health for implementation.

Of the existing ethical committees, some do not function well, others are purely hospital based and not all include laymen or general practitioners.

Golf cooperative 'harmed by disloyal undercutting'

Mr Dai Rees, the former Ryder Cup captain, and his co-directors of the Professional Golfers' Association yesterday rejected accusations of blame for inefficient management.

The board claims that the cooperative which is in debt for more than £1m was harmed by the activities of some golf professionals who undercut it by dealing directly with manufacturers.

A creditors' meeting at the

Chartered Insurance Institute, in the City, was told by Mr Geoffrey Martin, the liquidator, that some professionals even threatened small cooperatives in competition with the association.

The other directors of the association were said to be Mr R. S. Jamieson, Mr R. Mace, Mr M. Selby-Smith, Mr E. R. Whitehead and Mr R. N. Niven.

Assets were estimated at just over £1m and the deficiency to creditors was put at £10,607.

Woman prisoners said to have grown cannabis

Women inmates at Ashham Grange open prison had grown cannabis in the kitchen garden there, it was alleged at York Crown Court yesterday.

Mr Roger Scott, counsel for Paul Lacey, aged 28, husband of a former inmate, suggested that there had been a flourishing drug trade at the prison. Mr Lacey, of Princess Street, Wombwell, pleaded not guilty to supplying and possessing a controlled drug.

The trial continues today.

Mr Keith Castle, the heart transplant patient, who has won his fight to insure his life. He was declared an "acceptable risk" by Sun Alliance yesterday, three months after he had asked the Life Assurance Association if any company would insure him. Mr Castle, aged 54, a builder from Battersea, London, said: "I am delighted. It means that insurance companies can accept heart transplant patients as normal, physically fit people. I intend to live for a long time yet."

Spanish Premier will not ask Socialists to join him in coalition

From Richard Wigg
Madrid, March 5

Señor Leopoldo Calvo Sotelo has discarded any idea of forming a coalition government with the Socialists, his aides said in Madrid today.

The Prime Minister, it seems, believes that a coalition embracing more than three-quarters of the political spectrum in Parliament does not offer the best way to strengthen democracy after the failed military coup.

A meeting last night between Señor Calvo Sotelo and Señor Felipe González, the secretary-general of the Socialist Party, resulted in both sides stating their different viewpoints after analysing the failed coup.

The Socialist leader agreed to meet Calvo Sotelo's offer to maintain a dialogue on tackling basic issues such as stabilising democracy, combating terrorism and regional devolution, all of which, if not resolved, could heighten the latent threat of another assault on democracy by right-wing elements among the armed forces.

Sensing they had King Juan Carlos's tacit approval, Señor González and Señor Manuel Fraga Iribarne, the leader of the conservatives, had both been campaigning for a broad-based coalition.

Two of Spain's most important economic figures, Señor Carlos Ferrer, the president of the Confederation of Employers' Associations, and Señor Rafael Termes, the president of the Spanish Private Banks Association, met journalists to express their disapproval of the coalition idea.

Business leaders speak out more readily on public affairs in Spain than elsewhere in Europe and the two men joined in the debate on whether a coalition was the right remedy for a threatened democracy.

While some people are citing the example of Italy's 30 years under the Christian Democrats to argue that Spain must maintain a moderate alternative, others see the threat to democracy as so grave that the two main parliamentary forces must bar the road to reaction.

Señor Calvo Sotelo, who by saying "no" to the Socialists has also rejected a demand from a minority within his own party for a coalition, had already promised such reforms. Señor González, however, continues to be greatly influenced by the ideas of Herr Willy Brandt, the West German Social Democrat leader, that the best way for a left-wing party to obtain a majority of the votes is first to become "respectable" by governing in tandem with the present power.

The employers' leader argued that Spain's democracy would be best served by maintaining an alternative party—unless you consider the Communists as an alternative. He added that if the Socialists won power at the next general election, employers would fully accept the popular verdict.

Señor Ferrer denied that there were members of his organization with right-wing sympathies, and also said that this organization "has not and will not back the de Gaulle option".

The bankers' leader said a coalition with the Socialists now "would be like adding water to good wine".

Señor Calvo Sotelo met today Señor Carlos Garaikoetxea, the Chief Minister of the Basque autonomous regional Government. He believes that the devolution process should be carried out in a more orderly way to avoid any appearance of "unravelling" Spain and so further upsetting the military.

Señor Albert Oliart, the new Defence Minister, today began meeting all nine regional army commanders. One of the hard-line commanders, Lieutenant General Ángel Campaño, in charge of the Valladolid military region, today denied that he had been vacillating on February 23 in supporting the King.

The Government, Señor Oliart said, had decided that it would be "inopportune" to support a proposal to pardon members of the Union of Democratic Officers, which began campaigning for a more democratic spirit in the armed forces towards the end of the Franco era. Several of its leaders were subsequently punished and dismissed.

Señor Oliart reiterated the Government's policy not to use the Army to fight Basque terrorism, no matter how important its eradication remained for Spanish democracy.

Some 250 Portuguese rightists crossed the frontier into Spain on the night of the failed coup, the Europa press agency reported today, quoting Spanish sources.

They spent the night at a farm near Badajoz and returned home after the coup failed.

Basque violence: A national police officer died today shortly after being shot in the back of the head by some young men while walking home from work in the Bilbao district of Deusto (Harry Debelius writes from Madrid). Suspicion fell on the military wing of ETA.

The victim, Señor José Luis Raimundo Moyá, a senior chief, was wearing civilian clothes at the time. Señor Calvo Sotelo flew to the Basque region tonight to attend his funeral.

The police today disclosed the arrest of three more suspected members of the extreme right-wing Spanish Basque Battalion in connexion with the murder of a factory worker near San Sebastián earlier this week.

Madrid newspapers today reported that at least 22 officers held in connexion with the failed coup were yesterday charged with rebellion.

Recurring earth tremors create alarm in Athens

From Mario Modiano
Athens, March 5

A series of severe earthquakes rocked the south of Greece and the area of Athens in the past 24 hours, causing widespread damage to village houses and arousing considerable alarm among the population.

Three deaths caused by heart attacks in the Athens area were attributed by the authorities to the powerful shock measuring 6.2 degrees on the Richter scale which occurred shortly before midnight last night.

This was followed by a tremor of 5.2 degrees soon after 3 a.m. But it was an earthquake rating 5.8 degrees at 9 a.m. today that renewed the panic, causing many Athens shops to close, and people to drive away and spend the day in the open.

Seismologists have been trying to reassure the public by insisting that the mere aftershocks of the violent earthquake measuring 6.6 degrees on

February 24 which caused at least 18 deaths.

Professor Ioannis Drakopoulos, the head of the Geodynamic Institute of the observatory, said that last night's strong tremor implied a discharge of pent-up geological energy which would result in limiting the number and intensity of the aftershocks. "The likelihood of another tremor of the magnitude of last week's earthquake is extremely limited," he said.

There is, however, some concern because the epicentre of the earthquakes, situated in the Gulf of Corinth, has evidently shifted nearly 10 miles in the direction of Athens.

Reports that last night's earthquake had caused tidal waves along the Corinth coast, could not be confirmed.

The British Government, responding to an appeal from the aid of the Greek earthquake victims, is sending 250 tents to provide temporary shelter for the homeless.

Sale to Taiwan approved

The Hague, March 5.—The Dutch Parliament today formally accepted the Government's decision to approve the sale of two submarines to Taiwan.

The outcome had been clear since last Thursday, when dissidents within the Christian Democratic Party of the ruling coalition said they would not challenge the Government.

The lower chamber of the Parliament defeated two

motions today, one "regretting" the Government's decision and a "repealing" motion.

In December, the Parliament narrowly approved the Cabinet's decision to grant an export permit to the Rijn-Schelde-Volme shipyard in Rotterdam, which is negotiating a 1,000m-guilder (about £200m) deal including the two submarines.

China then put pressure on The Netherlands.

Four cleared by Rome court of aiding terrorists

Rome, March 5.—Four people were found not guilty by a Rome court today of crimes against the state in publishing a magazine that regularly printed material from terrorists groups such as the Red Brigades.

The four, including two lawyers, were charged with supporting terrorists groups by publishing the documents.

Judge Sergio Sorichilli ruled that the publication of the documents by Signora Giovanna Lombardi and Signor Eduardo di Giovanni, both lawyers, and two other men who ran the magazine did not constitute a crime. UPL



Dr Frank Wiswall, an American lawyer (left), and Mr Philip Bowen, the Liberian Maritime Commissioner, at a press conference yesterday on the Amoco Cadiz tanker disaster.

French are accused over Amoco Cadiz

By Michael Bailey
Transport Correspondent

France was accused yesterday of withholding vital information on the sinking of the tanker Amoco Cadiz in 1978, partly so as not to impair its huge claim for damages arising from resulting pollution of the Brittany coast.

The key evidence withheld from Liberia's formal inquiry, whose final report was published yesterday, is a record of messages received by the French coastal station at Brest.

Liberian experts believe the messages would show that French authorities were aware of the threat of large-scale pollution much earlier than has hitherto been disclosed, but failed to take action.

The licence of Captain Pasquale Bardari as a master is now being restored. Mr Philip Bowen, the Liberian Maritime Commissioner, said at a London press conference yesterday that though the captain's failure to send out a general distress signal before the tanker grounded was "inexcusable" he had "suffered enough" in the past two years.

Captain Bardari still faces penal charges in the French courts.

French claims in respect of the 230,000-ton tanker are believed to amount to more than £1,000m, of which the

largest are by the French Government. They will be fiercely contested in the American courts later this year by insurers who believe that no more than £50m to about £100m of the claims are provable.

The Liberian report declines to censure either the tanker's owners, the American oil company (Amoco), or Captain Bardari, though both are criticized for the delay in calling for help.

Nor is there censure of the owners or master of the German tug Pacific, which came to the rescue but failed to stop the tanker grounding when a tow rope broke.

The main findings of the inquiry, which was held in London, is that the accident, at that time the worst ever oil pollution disaster, was caused not by human failure but by the mechanical failure of the ship's steering gear as it proceeded up the French coast with 200,000 tons of crude oil in rough seas and gale force winds.

Mr Bowen said that France's action and inaction after the incident, its failure to provide evidence and its arrest of key witnesses were "grossly in contempt" of rulings by the International Maritime Consultative Organization governing such inquiries.

Liberian experts admitted yesterday that individual French experts had been helpful and friendly, but cooperation had apparently been forbidden by the French Government on the grounds that it did not wish to be seen to approve of a flag of convenience inquiry, and that certain evidence in its possession might affect the civil action.

US urged to set example for Europe

From David Cross
Washington, March 5

Before "twisting the arms" of the West Europeans to increase their military spending, the United States should concentrate first on setting an example by upgrading its own defences, Senator John Tower, the chairman of the Senate armed services committee, said today.

But, he told a breakfast news conference organized by Foreign Policy magazine, he had no doubt that once the United States had acted to increase its defence spending, "then we will be urging Europe to do more."

Senator Tower, a Republican hark from Texas who took over the chairmanship of the powerful Senate armed services committee from the Democrats at the beginning of the year, was responding to reporters' questions about the plans announced yesterday by Mr Caspar Weinberger, the Defence Secretary, to increase the defence budget annually by 7 per cent in real terms over the next five years.

The senator made it clear that although the new Administration had suppressed its public criticism of the Europeans for not doing more to boost their defence spending for the time being, there remained considerable criticism among his colleagues in Congress about the poor performance of the allies.

He recognized, however, that some European countries had political as well as economic problems

Storm over tribute to Dönitz by Army union

From Patricia Clough
Bonn, March 5

The main West German soldiers' trade union has incurred the wrath of the Bundeswehr chief by criticizing the ban on military uniforms at the funeral of Hitler's successor, Grand Admiral Karl Dönitz.

Liberian experts admitted yesterday that individual French experts had been helpful and friendly, but cooperation had apparently been forbidden by the French Government on the grounds that it did not wish to be seen to approve of a flag of convenience inquiry, and that certain evidence in its possession might affect the civil action.

It criticized the Defence Minister's ban on uniforms at the admiral's funeral on January 6 as "making the extreme in uniform who wanted to pay a last tribute to the deceased invisible and insecure".

Disciplinary proceedings are in progress against two reserve officers who defied the ban. Admiral Dönitz, architect of the submarine war against Britain, was the last commander of the wartime German Navy after Hitler's suicide; he became the head of the doomed Third Reich.

Herr Hans Apel, the Defence Minister, forbade uniforms at his funeral because he was not only a soldier, but a leading figure in the Nazi state. Dönitz "never left any doubt that he identified with the aims of National Socialism," he said.

Herr Erwin Horn, deputy chairman of the Bundestag

defence committee, said the tribute was in "extreme bad taste". Between 20 and 30 members have resigned from the union in protest.

General Jürgen Brant, general inspector, or chief of the Bundeswehr, wrote a sharp letter to the organization saying he was "surprised and shocked" at the "one-sided and polemic" protest.

Some members, he said, might remember Dönitz for saving thousands of refugees fleeing from the east, but others would see him primarily as one of Hitler's followers whose lack of critical thought had made the war possible in the first place.

The attitude of the Bundeswehrverband was "appalling" considering that it did not devote a single line to the death last year of Dr Fabrian von Schlabendorf, a leading member of the June 20, 1944, assassination plot against Hitler.

Herr Peter Raabe, spokesman for the Bundeswehrverband, said this month's edition of the union's magazine, Die Bundeswehr, full text of Herr Apel's statement on the uniform ban and a few lines clearing up "misunderstandings".

The union did not intend to make Dönitz a model for the Bundeswehr but protested against a growing tendency by the ministry to "hide" the armed forces by forbidding members to wear uniforms on non-official occasions.

"We are not in favour of people going to the funeral in uniform but we are against them being forbidden to do so," he said.

Indian chiefs scrutinize Paris treaty for rights

From Charles Hargrove
Paris, March 5

Chief Big Louis, of the Hurons, traditionally allied to France since the sixteenth century, and Chief Andrew Delisle, of the Mohawk-Iroquois, called this morning at the archives of the Quai d'Orsay.

The two Canadian Indian chiefs were anxious to see the original text of the Treaty of Paris of 1763, under which France was forced to cede Canada to Britain at the end of the Seven Years War. They wanted to ascertain whether, as they had been told, Britain had undertaken by this treaty to respect the rights of the Indians with whom France had signed agreements before the surrender of "New France".

The French Foreign Ministry is rather blasé about colourful visitors from overseas, and it takes more than an Indian chief with two feathers stuck in his long plaits of greying hair to shake the compulsion of the Quai d'Orsay ushers.

One can see every Parisian Indians about the streets, barring the feathers perhaps every day. But Big Louis is a fine figure of a man, who speaks French like the Québécois. His companion, Chief Andrew Delisle, whose tribe was traditionally allied to the English, also has distinguished looks.

They were, unfortunately, disappointed in their search. There is nothing specific in the Treaty of Paris about the rights of the Indians, which could be used as an argument in Ottawa that their tribes constituted a nation which had never abdicated its rights.

All that is said is that "the inhabitants, French or otherwise, who had been subjects of the most Christian King, will be able to retire in complete safety and freedom wherever they wish and sell their possessions, provided it be to British subjects".

The two Indian chiefs expressed great interest, however, in this clause, because of the expropriation of which they were the victims in the past.

Their spokesmen said they were demanding the right to participate in the negotiations between the Canadian Government and the provinces on the repatriation of the Canadian constitution in order to obtain the status of a province in turn.

They further emphasized that they had never had any part in the drawing up of the Canadian constitution although the preamble of the British-North America Act specified that the three nations of Canada—British, French and Indian—should do so.

The two Indian chiefs will be joined tomorrow by Mr Del Riley, the chairman of the "National Assembly of the Indians of Canada," the real "government" of the Indian

The two chiefs were anxious to make it clear that they were not in Paris to meddle in French politics, or to create difficulties between France and Canada.

Mitterrand escape route retraced

From Gretel Spitzer
Berlin, March 5

Herr Willy Brandt, the chairman of the West German Social Democratic Party, and M François Mitterrand, the French Socialist leader, met on the Berlin-West German transit route in East Germany today.

M Mitterrand, a former inmate of a German prisoner-of-war camp, was retracing the route he took when he succeeded in escaping from Thuringia in 1941 after two failed attempts.

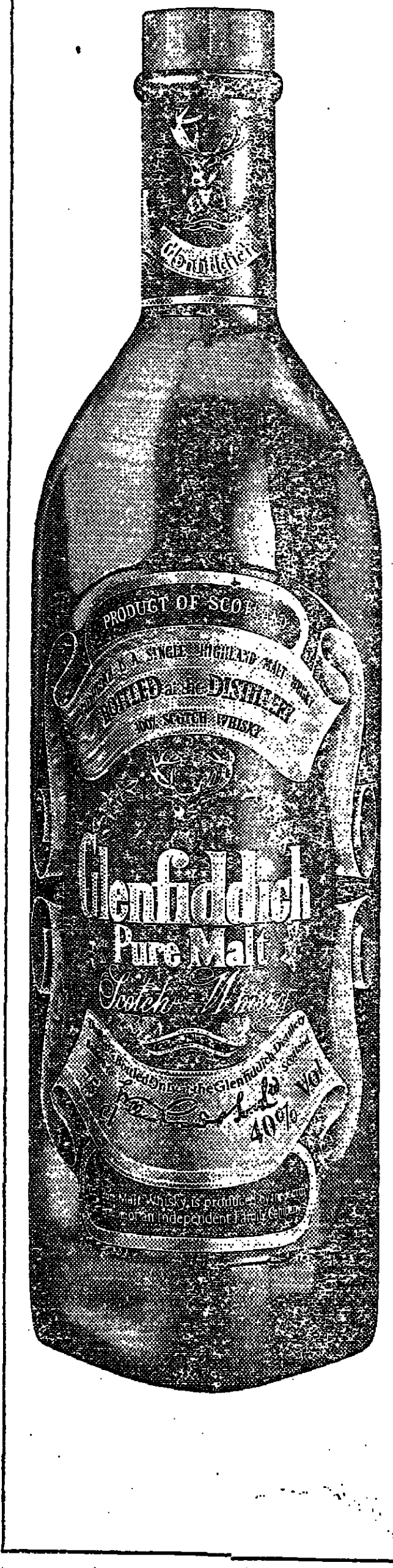
He met Herr Brandt after visiting Rudolstadt, where he was brought after being taken prisoner in June 1945.

Groups of East Germans were reported to have waited for M Mitterrand hoping that Herr Brandt would also come.

It was an historic moment, far from Rudolstadt, that Herr Brandt, then West German Chancellor, was cheered by East Germans during a meeting with the East German party leader.

West German correspondents accredited to East Germany were not permitted by the East German authorities to be present at the meeting of the two politicians on the ground that it was a private affair.

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maybe
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Russia puts pressure on Polish party to adopt tough policies

From Michael Binyon
Moscow, March 5

Yesterday's important meeting between the Soviet leader and Polish party leaders regarded in Moscow as clear evidence that the Russians now intend to put strong pressure on the Polish leaders to take a tougher line in restoring things to normal. But a dangerous confusion has arisen over the translation of a key phrase in yesterday's lengthy communiqué.

Mr Stanislaw Kania, the Polish party leader, General Wojciech Jaruzelski, the Prime Minister, and other leading figures in the Polish party gave an undertaking to the senior members of the Soviet Politburo to act swiftly to overcome anarchy and disarray in Poland and to strengthen the socialist system.

At the same time the Russians said they were confident that Polish communists have the possibilities and strength to turn the course of events, to eliminate the dangers hanging over the socialist gains of the Polish people.

In the Russian Text the word used for "turning" the course of events can also be translated as "stemming" or "stopping" the low of events. But in the Polish text it translates more accurately as "reversing" the course — a far stronger demand, which suggests that the Russians are expecting the Polish leadership to test up its agreements with Solidarity, the independent trade union, and to go back to the situation prevailing before the beginning of the Polish crisis last summer. In Russian the word "turning" would be used to convey that impression.

The nuance is of some significance. For though it is clear

that Moscow would indeed like Poland to scrap the concessions made to Solidarity, most of which are unacceptable to orthodox Soviet communism, it is thought unlikely here that the Soviet leadership would demand that the Polish party should pledge itself to do something that would certainly provoke a serious new crisis in the country.

Nevertheless, there is no doubt that the Russians, led by President Brezhnev, had some straight talking with Mr Kania and his colleagues. Moscow has already made the serious public allegation that counter-revolution is engulfing Poland, and the communiqué emphatically restated the so-called Brezhnev doctrine of limited sovereignty, saying that the defence of communism in one country was the concern of all other fraternal communist countries.

With that congress out of the way, however, and given the public endorsement of Soviet declarations during it that Moscow would "not abandon its ally in its hour of need," the Russians may now feel they have a freer hand to concentrate on the Polish crisis.

The prominence given by the East German press this morning to yesterday's meeting suggests that the Soviet side put forward some tough demands for immediate action by the Polish party — action that the hard-line East Germans have long been calling for.

And the inclusion in the Soviet side of such figures as Mr Mikhail Suslov, the veteran ideologue, Mr Yuri Andropov, the head of the KGB security forces, and Marshal Dmitry

Kania problems over rank-and-file demands

From Dena Trevisan
Warsaw, March 5

Mr Stanislaw Kania, the Polish party leader, and General Wojciech Jaruzelski, the Prime Minister, returned from Moscow last night with the Soviet leadership's trust in the Polish Communists' capability to "reverse the course of events," but also with an implicit note of warning that the over leaders expect them to move faster and more decisively against what Moscow regards as a dangerous trend.

This gives the Poles the necessary time but it also increases the pressure from the Warsaw Pact countries in whose arms President Breznev was speaking.

Moscow evidently expects the Polish party to assert itself more forcefully after months of political paralysis. This is precisely where Mr Kania faces the most serious problem with his army rank and file agitation for profound democratic reforms and flooding the leadership with demands for structural and statutory changes that would enable membership to control and influence the leadership's policies.

To ignore the demands

means for the leadership to risk losing the base especially as the strongest pressures for changes come from party groups in industrial enterprises and from the workers themselves.

Preparations for the party congress proceed in a highly politicized atmosphere in which the base is challenging the whole structure of "democratic centralism" and agreement will obviously demand much time to be achieved.

The response to General Jaruzelski's call for a 90-day truce in labour relations has been good but the truce is fragile and can be easily upset, especially as food shortages are increasing and queues for basic commodities become longer each day.

In Poznan a meeting of Rural Solidarity has been called for Sunday to press for formal recognition of the peasants' union.

In what appears to be a sign that the authorities have decided to make a tougher line towards dissidents, Mr Jacek Kuron, leader of the Self-Defence Committee KOR, was today ordered by the police to be available for questioning on charges of slandering the state.

Robots bring Japan little loss of jobs

Continued from page 1

his final assembly of a new generation of automatic robots which are being snapped up by Japan's efficient industrial plants. At present the plant produces 100 sophisticated robots a month.

Fujitsu estimates that a conventional plant would have to employ five times as many workers to produce the same number of completed robots. By 1985 Fujitsu plans to produce four times as many robots and automatic machines with only 200 employees, about one-fourteenth of the workforce required in a normal plant.

The president of Fujitsu, Mr Seiemon Inaba, says the company's ultimate aim is to build another robot by 1985 which will completely assemble the finished product. "That is my dream," he says wistfully.

Much to the consternation of the West's unimpaired industrialists, this new generation of robots and automatic machines is expected to increase the productivity of Japan's already highly efficient plants by 70 per cent in the 1980s.

Yet while boasting of the world's most highly automated industrial plants, Japan has only a 2 per cent rate of unemployment, the lowest among the world's leading industrial democracies.

In fact, the trade unions here have not resisted the introduction of robots and new technology which have eliminated dangerous and monotonous jobs in many factories.

According to the Japan Robot Association, 60,000 sophisticated robots are turning out high quality cars, clean electronic equipment, new robots and other industrial products.

American industrial plants produce a mere 3,000 sophisticated industrial robots, defined as automatic equipment which can perform more than one function. West Germany, one of the world's leading industrial powers, is equipping with only 850 robots, and Britain only about 105.

Reflecting the view of the trade unions, Mr Seigo Kojima, spokesman for the Japanese Council of Metal Workers, says: "We need our robots."

Mr Shamir to meet Pope today

From Christopher Walker
Jerusalem, March 5

Traditional differences between the Vatican and Israel over the status of Jerusalem and its holy places are expected to recede in Rome tomorrow when the Pope John gives an audience to Mr Yitzhak Shamir, Israel's hardline Foreign Minister.

The controversial meeting has been arranged at Israel's request and will be the first between the Pope and an Israeli Government minister. In the past a small number of leading Israelis have been granted papal audiences, including Mr Moshe Dayan in 1977 and the late Mrs Golda Meir in 1973.

A spokesman for the Israeli Foreign Ministry explained today that his Government recognized the importance of maintaining cordial contact with the papacy, although the Vatican had never recognized Israel "de facto or de jure" and the two states have no formal diplomatic ties.

27 prisoners burnt to death in Peru

Lima, March 5.—Twenty-seven prisoners were burnt to death in a prison riot here today when a gang of inmates doused their locked cells with paraffin.

Nineteen prisoners were also stabbed with homemade knives at the three-storey concrete building in central Lima, which was designed to house 250 but had a population of 1,096.

Extremist director general of the prison system, said a fist and knife fight between two rival gangs broke out yesterday evening and guards fired machine guns into the air to disperse them.

The fighting resumed and more than 100 inmates not involved in the dispute took refuge in their cells on the third floor of the prison, he said. Someone placed a master bar across the cells, Señor Vázquez said, preventing the inmates from escaping.—AP.

Spate of Solidarity publications helps to slake thirst for truthful information

By Timothy Garton Ash

Like the silence of a truce after prolonged fighting, the peace which descended on Poland last week seemed unnatural.

Intermittent sniping could be heard from the government benches. But the main action moved eastward to Moscow, where Poland's fraternal ally solemnly declared their sort of solidarity with Mr Kania, the party leader, and west to Paris, where Poland's capitalist creditors met behind closed doors.

Meanwhile a large puny case is being shunted back and forth across the no-man's-land between Solidarity and the authorities, marked "Danger, High Explosive: Censorship". Both sides are aware just how explosive is the censorship issue.

During a turbulent discussion in the heady days of the Gdansk shipyard occupation last August a young writer leapt to his feet demanding total abolition of censorship.

"Remember what happened when the Czechs abolished censorship in the summer of 68?" came the prompt reply from Mr Bogdan Lis, the young workers' leader who last weekend came to Britain at the invitation of the TUC.

The censorship, a prominent literary critic admonished me, is as vital to the Soviet system as the Warsaw Pact. Certainly the Soviet ambassador to Warsaw is known to have intervened to block or "correct" reports in the Polish media.

The Poles also take censorship seriously. For example the censors' Central Office stipulates: "Absolutely no information is to be published about the Katowice mine disasters in the coal mines or not to appear in the mass media." Presenting statistics of safety and hygiene at work or occupational diseases must be withheld. "Figures illustrating the state and growth of alcoholism in the country are not to appear in the mass media."

These examples are taken from 600 pages smuggled out by a disillusioned censor in 1977 (*The Times*, September 26 and 27, 1977). The copies were resmuggled back into Poland where they were published by the opposition Social Self-Defence Committee KOR and read by, among others, workers in the Baltic ports. Which is why freedom of expression came immediately after the right to work, trade unions and the right to strike in the Gdansk demands.

The Gdansk agreement of August 31 stated that a new censorship law should be presented to Parliament within three months.

Six months later a parliamentary commission is still struggling to amalgamate two



Information service: People crowd into a Solidarity office in Warsaw in search of advice and the daily news-letter.

separate projects: a government scheme prepared by the Ministry of Justice and an independent draft prepared by a committee representing writers, journalists and film-makers.

Although the secretaries of the Writers Union and the PEN club emphasize their opposition to censorship in principle, they agree that in practice Poland's geopolitical position makes some restrictions unavoidable.

The country's system of alliances, its constitution (enshrining socialism), state, military and economic secrets must be counted among the herd of sacred cows.

The argument now revolves around the definition of these prohibited areas. In the original government draft the definitions were so elastic as to permit the operation of the censorship much as before. The authorities are also stubbornly refusing to place the censor's office under parliamentary control.

But they have conceded a measure of judicial supervision and censors will be obliged to give written reasons for their decisions, which can then be challenged in a court of law.

They have also promised to drop the practice of censoring the author rather than the text. Until recently it was forbidden so much as to mention the opposition writers in official publications.

This long blacklist of literary unpersons, which incidentally

included the greatest living Polish author (last year's Nobel Prize winner, Czeslaw Milosz, for example) will be torn up.

Already the unmentionables have been mentioned and the unpublished published in the main literary and political weeklies. The books will take longer to appear.

Such is the popular hunger for truthful information in Poland today that there are queues at the newspaper kiosks as long as those outside the butchers' shops.

Arguably, the demand for truth is closely related to the supply of food. As the German philosopher Ernst Bloch once remarked, men do not live by bread alone, especially when they have none.

In Poland the supply of truth, like that of meat, varies greatly from day to day and place to place although it is everywhere less than adequate.

What I can write in Cracow I could write yesterday in Warsaw, and today in a party journal's complaints.

The Cracow party newspaper, along with those on the Baltic coast, is among the most audacious. Under a new editor it took up an environmentalist campaign last autumn against the Huta Skawina aluminium works near by.

Pollutants from Huta Skawina have been poisoning the air and ruining the facades of a city which combines the charms of Oxford and Vienna. The author-

ities have promised that the offending works will be closed — an example of what can happen if you unuzzle the press.

But since Mr Stefan Olszowski, a powerful opponent of Mr Kania in the Politburo, took over this responsibility in the last week of December (when Warsaw Pact troops were mobilized on Poland's frontiers) the media have been firmly muzzled again.

The people most directly involved are those least interested in avoiding confrontation. These are hardliners like Mr Olszowski on the side of the regime and, on the union side, the printers; about 50,000 of the country's 60,000 printers are members of Solidarity.

Their militancy has been nourished by years of reading uncensored first proofs. They are now threatening to leave blank spaces wherever the censor has been at work, a tactic used to great effect by their forebears under the Tsars.

Then there is the knotty question of the space of publications "without the censorship" (as the opposition carefully describes them). This includes Solidarity newspapers, bulletins, brochures and circulars which are duplicated, mimeographed, or increasingly, run off on offset printing machines donated by Western trade unions. Solidarity has even established its own national news agency.

Journals like *Robotnik* ("The Worker"), produced by opposition intellectuals and circulated

conspiratorially among the workers until August, have now come under the aegis of the union.

It is a curious experience for someone from Fleet Street to find trade unionists working day and night to introduce the latest labour-saving technology. In their last agreement the students gained freedom from censorship for a wide range of academic publications. And the peasants in Rzeszow were promised new school history textbooks which, as their manifesto simply put it, "would tell the truth".

The fact that the rural strikers included this among their demands shows once again that interest in the issue is by no means confined to the intelligentsia.

But, if a new censorship law does finally reach the statute book it will not solve the problem of access for the independent unions to the state-controlled mass media, and that of their own alternative media.

Mr Jan Jozef Szczepanski, recently elected secretary of the Writers' Union, points to a further difficulty. Under the present law unofficial publishers like the Nowa house, which recently exhibited at the British Book Fair, can not be prosecuted. They can only be persecuted.

It is possible that the new law, by giving a clear legal definition of the unpublishable, would leave them open to prosecution.

'Doves' losing El Salvador fight

From David Cross
Washington, March 5

The doves in Congress appear to be losing their vigor, but limited battle to restrict increased American military aid to El Salvador.

Senator Alan Cranston, the Democratic Whip in the Upper House, has conceded that continuing criticism by liberal Democrats in both houses of Congress of the Administration's latest plan to send an extra 20 American military advisers and \$25m (£12m) worth of aid to the Government in San Salvador will probably not deter President Reagan and Mr Alexander Haig, the Secretary of State.

Nevertheless a small, vocal group of about 40 liberal Democrats in the House of Representatives are persisting with their efforts to prevent Washington from making the conflict in the tiny Central American republic a "test of wills" between the two superpowers. Mr Benjamin Rosenthal, a Democratic Congressman from New York, said that such a test was "mistaken and provocative".

Mr Richard Ottinger, another member of the House of Representatives, of New York, is trying to force the Administration to seek the approval of Congress before the extra military aid can be sent to the Government of El Salvador.

Yesterday he introduced a draft resolution seeking to require the President in compliance with the War Powers Act, which was introduced in 1973 to prevent another Vietnam. "To allow the President to commit military personnel to El Salvador while ignoring the democratic process," Mr Ottinger said.

The State Department, however, contends that the latest aid for El Salvador falls outside the scope of the War Powers Act. It argues that the 20 extra military personnel are instructors rather than advisers. Their job is to teach people how to use equipment not how to fight a war, a State Department official has explained.

Most members of Congress, including moderate Democrats, appear to agree with the Administration's rationale for sending extra military aid to El Salvador.

The United States had to convince the Soviet Union and Cuba that it did not intend "to let them influence the course of events in the region." In Central America, Senator John Tower, chairman of the Senate Armed Services Committee explained today.

Outside Congress, opposition by the general public to American intervention in El Salvador has been equally limited.

Meanwhile, Mr Haig has told reporters that the future commitment of American aid to El Salvador will depend "largely on the willingness of Cuba and the Soviet Union to continue to intervene illegally in the events



President Duarte denouncing the extreme right wing.

in this hemisphere". He reiterated his earlier warning that communist behaviour on America's doorstep was "no longer acceptable or tolerable".

Originally, the sources said the West German government feared that the United States, alarmed by communist encroachment on its doorstep, would react with what they called "a western Afghanistan".

Such a move, which they emphasized would have been a "reverse Afghanistan" rather than a second Vietnam, would have had devastating consequences for the United States' image in the Third World and elsewhere, and for East-West relations.

These points were put to Mr Lawrence Eagleburger, President Reagan's special envoy, who came to Bonn two weeks ago to put American views on El Salvador.

Government sources said the subject will need "very careful handling".

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Five shots flush out America

From Michael Leapman
San Salvador, March 5

The curious events of the last two days here have served to crystallize the positions of some of the main participants in this small country's convoluted diplomacy.

The Americans have now come down unequivocally in favour of the moderate reformism of President José Napoleón Duarte and against the excesses of the extreme right. That there should have been any doubt where the Americans stood derived from the impression given by members of President Reagan's Administration that defeating global communism was an object so important for the United States that almost anything would be countenanced in its name.

Señor Roberto d'Aubuisson, the former national guard major who began the chain of events on Tuesday, says that he thought he had received that message. He called a "secret" conference to announce that things looked favourable for a far-right coup and to indicate that he expected American support for it.

The excessively conspiratorial atmosphere for the conference would have been laughable—a kind of "Dads' insurgency"—were it not that the extreme right does appear to be genuinely vicious and to have support from rich businessmen and army officers.

President Duarte took him seriously enough to denounce him and all plotters at his press conference yesterday and to declare that he had issued a warrant for his arrest. As he was making this announcement the event occurred which flushed the Americans from their public indecision.

Men in an open lorry, cruising past the American embassy, fired five shots, doing hardly any damage and injuring nobody. On what seemed the flimsiest of evidence the

ambassador, Mr Frederick Chapin, blamed followers of Señor d'Aubuisson. He made a firm denunciation of any coup plans and a statement of support for a Señor Duarte.

Parallel with this, there has been talk this week of a "dialogue" between the Duarte Government and the left-wing rebels. Such an idea is anathema to the far right.

Americans are staying silent on the question of dialogue with Mr Reagan's philosophy of confronting communism rather than coming to terms with it.

Yet if the process were eventually to result in a popular but clearly not a communist dominated government, an outcome a long way into the future, the Americans might live with it.

Another Beirut link is broken by snipers

From Robert Fisk
Beirut, March 5

A lone motorist risked the Sodeco crossing point from east to west Beirut this afternoon. A middle-aged man, he drove his black limousine along the old black limousine, swinging wildly between weed-covered pavements and bullet-pocked palm posts in a haze of brown dust.

There was a crackle of rifle fire as Beirut's traditionally anonymous snipers tried vainly to smash the driver's "Islamic self-confidence". But he made it to the cover of Becharra el-Khouri Street in seven seconds flat.

Until three weeks ago, the Sodeco shopping centre, a damaged set of offices boasting a row of slightly dated boutiques, marked the safest transit point between Muslim and Christian Beirut, a thoroughfare whose dingy and scarred apartment blocks were given some semblance of order by the neatly sand-bagged check point of the Lebanese Army at the eastern end of the street.

The sandbags were still there this afternoon, surmounted by two tiny Lebanese flags—all red stripes and cedar trees—but the soldiers were nowhere to be seen.

And nor, of course, were the snipers. Their identity has become something of a talking point in Beirut since the Sodeco road was declared unsafe by the local gendarmerie. To the closure of the street has extended Beirut's sectarian isolation a further mile and a half across the centre of the city.

The longest but fastest route from east to west—an ugly four-lane flyover near the port—has been closed for more than a year because gunmen sitting inside the ruined factories and shops have shot at every motorist trying to use the road. Now the only main road still opens traverses the old civil war frontline at the Classical Museum, currently the scene of spectacular three-mile, all-day traffic jams.

The Lebanese Government, who earnestly and daily debate the problems of Beirut's miniature war, seem to have no idea who is shooting at the innocent travellers along the Sodeco road nor why they should attack civilians in so savage a manner.

Among the eight deaths to be recorded there in the past three weeks is that of a seven-year-old girl who was hit by a sniper's bullet while travelling in her father's car past the end of the street, and two young men who were picked off last week as they walked past the local offices of the Finance Ministry's revenue department in Becharra el-Khouri.

The Syrian Army, which notionally controls most of west

Iran unlikely to accept ceasefire in Gulf war

From Tony Allaway
Tehran, March 5

President Bani-Sadr today indicated that Iran would probably not accept the latest proposals for a ceasefire in the five-month Gulf war with Iraq.

He told a large public rally here that the Iranian Supreme Defence Council was still studying the proposals of a 10-man Islamic mission of mediation, which is currently shuttling between Tehran, Baghdad and Saudi Arabia. But Mr Bani-Sadr continued to insist on an immediate Israeli withdrawal from Iran, simultaneous with any ceasefire.

According to proposals submitted by the Islamic mission to the two sides, a ceasefire would begin on March 12 with a withdrawal of Israeli troops beginning on March and lasting four weeks.

The continuing hard line of Mr Bani-Sadr surprised those close to the mission negotiators, representing seven Muslim countries and the PLO. They have said in private that officials—including the President—connected with Iran's war effort had indicated a willingness for moderation.

Mr Bani-Sadr today blamed his enemies for spreading the rumour "that I am a supporter of compromise with the enemy... I undertake in your presence that we will resist in this war until victory is won. However, that while the President might want a speedy end to the war to concentrate on the internal political front, his room for manoeuvre was narrow in the negotiations from Iran's powerful Islamic fundamentalists.

An indication of this came today with a strong statement from Ayatollah Hossein Montazeri, currently regarded as the most influential cleric in Ayatollah Khomeini as the country's religious leader.

In a letter to the Supreme Defence Council, broadcast by the state radio, the Ayatollah warned that Iran would not accept anything less than the overthrow of President Saddam Hussein of Iraq, and his trial and punishment.

Savage violence: Scores of injuries were reported today as supporters of Mr Bani-Sadr turned the tables on gangs of Muslim fundamentalists who had tried to disrupt a mass rally at Tehran University.

In some of the most savage violence seen since last summer, the "collaborators" or supporters of the "Party of God" were mercilessly beaten by crowds who had come to hear a speech by the President.

About 100,000 people had gathered for the rally.

Leading article, page 13

Continued from page 1

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Leading article, page 13

Contin

South Korea assured of British support for its defence policies

From Jacqueline Reditt
Seoul, March 5

The British Government and President Chun Doo-hwan of South Korea hold very similar views on the defence of non-communist countries against the Soviet Union and North Korea, Mr Peter Blaker, Minister of State at the Foreign Office, told a press conference in Seoul today.

Mr Blaker was in Seoul to represent the British Government at the recent inauguration of President Chun.

He told the press that he had delivered a letter from Mrs Margaret Thatcher, the British Prime Minister, to the South Korean President and that he and General Chun had discussed international affairs and found British and Korean government attitudes very similar.

It was increasingly evident, he went on, that the countries of the free world were dependent on one another so that political and economic cooperation between Britain and South Korea was important.

Non-communist countries had to maintain their defence, build up strong economies, cooperate economically and politically and make it clear to the Soviet Union that aggression did not pay.

Mr Blaker confirmed that Britain would certainly be prepared to sell military equipment to South Korea, adding that the Hawk trainer, ground attack aircraft and the Rapier anti-air defence missile would be particularly suitable. He also guaranteed that Britain would not export any military equipment to North Korea.

Asked if the British Government was satisfied that democracy had been restored in South Korea, Mr Blaker said the fact that the Government welcomed the fact that internal affairs were the lead in the election, and that more than 5,000 people had recently been granted presidential pardons, but beyond that how internal matters were managed was a matter for Korea.

The South Korean Government today announced that a general election would be held on March 25. The first hint that the election will not be exactly open to all comes from the fact that the deposit for political party nominees will be nearly \$5,000 and for independent candidates about \$10,000. These deposits will be a considerable barrier to at least one-third of the voters. Such measures will certainly reduce the number of candidates.

As the election campaign gets underway, the clear favourite, the Democratic Justice Party, says the late President Chun as its leader, the party cannot fail to benefit from the continual publicity and increasing adulation he has been receiving.

The President's photograph has appeared almost every day on the front pages of the newspapers, and many columns and special supplements have been devoted to him. In a recent poem presented at a cultural programme of the inauguration ceremony, he was referred to as the "wise and trusted helmsman"—an expression China watchers also associated with Chairman Mao Tse-tung.

UN staff in Uganda threatened with death

From Charles Harrison
Nairobi, March 5

United Nations employees in Uganda have been threatened with death or kidnapping by one of several underground groups operating against the Government of President Milton Obote. UN officials said today.

United Nations offices in Kampala were closed yesterday while officials sought assurances from the Government that protection would be provided for the Organization's 100 employees in Uganda. Demands have been made in letters and telephone calls to the United Nations office that the organization should cease supporting the Obote Government.

One of the underground groups, calling itself the Movement for the Support of People's Rights, claimed today that it had killed 19 Tanzanian soldiers and 31 Ugandan troops in two ambushes on a main road north of Kampala. The movement says its aim is to overthrow the Obote Government because the December election was rigged.

Another underground group, the Uganda Freedom Fighters, claims to have organized the defection of several hundred Ugandan troops.

An assistant minister acknowledged the existence of the anti-government groups when he urged young people not to join them. The President's photograph has appeared almost every day on the front pages of the newspapers, and many columns and special supplements have been devoted to him. In a recent poem presented at a cultural programme of the inauguration ceremony, he was referred to as the "wise and trusted helmsman"—an expression China watchers also associated with Chairman Mao Tse-tung.

In brief

Aid released for Atlanta blacks

Washington, March 5.—President Reagan has decided to release about \$4,500m in federal aid for programmes to help blacks in Atlanta, where 19 black children have recently been murdered.

Mr James Brady, the White House press secretary, said the money would be used for scholarships and youth centres for underprivileged black children in the southern city.

Tanzania faces famine

Dar es Salaam, March 5.—President Nyerere of Tanzania has said that thousands of his countrymen might die of hunger next year because of a lack of food due to adverse weather. The four lake regions—Mwanza, Mara, Qinyanga and Kagera—faced a very bad food situation.

Englishmen jailed

New York, March 5.—Two Englishmen have been sentenced to between two and four years in jail each for stealing diamonds, worth nearly \$80,000, from two Manhattan jewelry stores. They were Desmond Robertson, aged 49, of Middlesex, and Brian Kurner, aged 50, of London.

Russians condemned

Geneva, March 5.—The Soviet Union has been condemned by the International Labor Organization for not permitting free trade unions to function. The Russians told the organization that various individuals, who were now in prison or in clinics in the Soviet Union, were not authentic trade unionists.

Sailors suffocated

Tokyo, March 5.—All nine sailors who were killed on a Soviet nuclear submarine off the southern Japanese island of Okinawa last August were suffocated by the ship's fire-fighting system, Soviet sources said here.

More funds needed

Bangkok, March 5.—International relief agencies at a new York meeting announced they will state that \$57.7m is still needed to prevent Kampuchea sliding back into disaster this year.

Swap toll put at 73

Windhoek, March 5.—South African security forces killed 73 Swapo guerrillas in the northern part of Namibia during February, according to an army statement.

Colombia amnesty

Bogota, March 5.—The Colombian Congress has approved an amnesty Bill for left-wing guerrillas in a move to end violence in the country.

28 flown from hijack ordeal in Kabul

From Hasan Akhtar
Islamabad, March 5

A group of 28 passengers, mainly women and children, who were released at Kabul airport yesterday by the hijackers of a Pakistani aircraft, were flown to Peshawar this afternoon.

They were told by the Ministry of Defence to speak cautiously about their four-day ordeal because the remaining 120 passengers and crew were still being held in the hijacked aircraft.

According to witnesses in Peshawar, the freed women and children appeared to be highly emotional. Some cried hysterically and others knelt down and prayed in thanksgiving for their safe deliverance from the hijackers who forced the Pakistan International Airlines aircraft, which was on a domestic flight from Karachi to Peshawar, to divert to Kabul on Monday.

Lieutenant-General Fazle Haq, the Governor of the North-West Frontier Province, was present at the airport as the representative of President Zia ul-Haq, who is due to return later tonight from his Islamic peace mission to the Gulf. President mission to the Gulf.

Canberra to restrict Russians

Canberra, March 5.—The Australian Government today tightened its restrictions on visitors from the Soviet Union. From now on, all Soviet visitors will have to submit a detailed itinerary before arrival and the Immigration Department must be notified if changes are proposed.

A Government statement noted that the restrictions applying to Australians visiting the Soviet Union were considerably more stringent than the new arrangements applying to Soviet visitors.

Mr Malcolm Fraser, the Prime Minister, told Parliament last night that Australian-Soviet relations would not return to normal until Soviet troops were withdrawn from Afghanistan. The Australian restrictions came after Mr Fraser had criticized Mr Nikolai Sukharikov, the Soviet Ambassador, for his remarks to reporters that Australia's foreign policy was "unfriendly" to the country into a nuclear target.

"The ambassador's remarks were foolish," Mr Fraser told Parliament.—Agence France Presse, and UPI.

Search for compromise on Belize

By David Spanier
Diplomatic Correspondent

Negotiations between Britain and Guatemala on the future of Belize opened in London yesterday. The delegates agreed that nothing would be said about their discussions until they were over.

The central question is whether a compromise, wrapped up in an economic development programme, for Guatemala's territorial claims on Belize and Belize's rejection, supported by Britain, of anycession of territory.

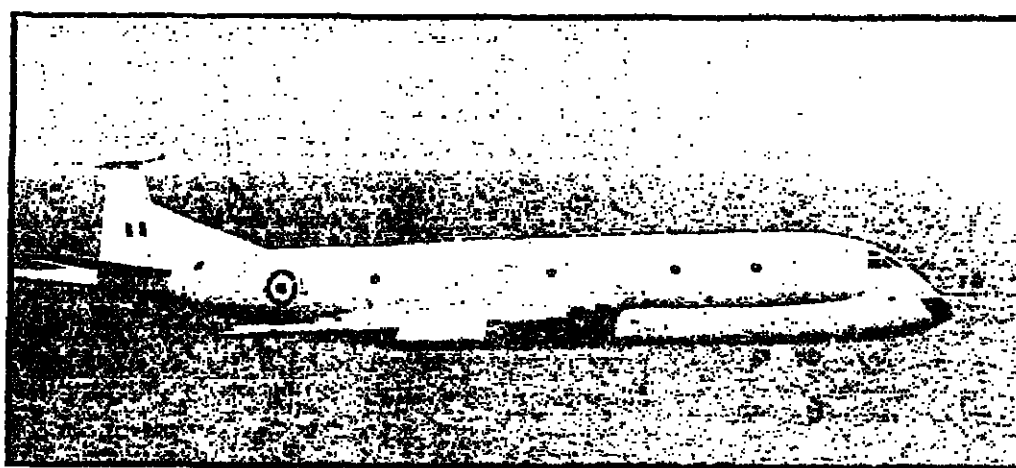
In a statement yesterday, Señor Castillo, Belize's Guatemalan Foreign Minister, looked forward to "a lasting, just, honourable and politically viable solution".

The positive tone of this statement supports the indications of progress evident in the recent talks at official level in Rights record: Guatemala had one of the worst human rights records in the western hemisphere last year, according to a study released by the Council on Hemispheric Relations.

existed in Mozambique since the country became independent in 1975, had passed on information to the South African intelligence services about ANC activities in Mozambique. It was probable, the communiqué said, that information provided by the Americans had helped the South Africans to pinpoint the ANC houses in which 12 people were killed during the raid.

Western diplomats in Maputo and Pretoria said today that the Mozambican action against the American diplomats confirmed their fears that last January's South African raid would force Mozambique to turn away from the West and establish closer ties with Soviet-bloc countries. Even though Mozambique was anxious to attract development aid and investment from the United States.

American sources in Pretoria said the expulsions followed an abortive attempt by Cuban agents to recruit one of the American diplomats as a spy.



An RAF Nimrod patrolling British waters in order to photograph and send back information to the Ministry of Information.

When a minesweeper or a reconnaissance aircraft sees a fishing boat in British waters, the details are sent back to the operations room of the Ministry of Agriculture. The room is dominated by a large wall map which shows all 270,000 square miles of sea which fall within the 200-mile national maritime zone which is attributed to Britain under international law.

Boats of different nationalities are identified on the map by stickers of different colours. The information is updated daily and stored in a card index. The index offers ministers a complete record of sightings since 200-mile limits were established five years ago.

It is now being superseded by a computer bank from which the Government can extract a master chart showing the pattern of fishing by foreign vessels in British waters. The information is costly to acquire, but of cardinal importance in the present round of bargaining in Brussels about an EEC common fisheries policy.

When ministers resume their debate they will concentrate on a compromise by which British waters will be protected while boats from abroad are allowed to fish in those parts of the British maritime zone where they have congregated in the past.

The argument about "historic rights" is one of the long and stormy process towards adopting a Community policy for sharing and policing the catching of fish in the waters of member states.

The present half-way policy will expire next year. The European Commission operates on the basis that there are no national waters, but only Community waters. The Community must find a compromise between the aims of those British fishermen who want a wide exclusive zone round British coasts and those in other countries who want unrestricted access to those coasts.

Compromise is aimed at restricting catching methods in some waters while keeping foreign boats out of all areas except those on which they have depended for a living in the past. One serious obstacle is to agree about precisely who has been accustomed to fish, and where they have done it.

The information collected by the British ministry's operations room gives this country's negotiators a clearer picture than anyone else of the extent and position of traditional fishing.

If another Community government claims that its fishermen have worked regularly in a particular section of British waters, the operations room will be able to indicate whether the claim is true.

Surveillance is done by ships and aircraft working together. An RAF Nimrod, which spots a boat, will circle at about 200 knots and make several passes at about 400 feet while a member of the crew photographs the boat with a hand-held camera.

Detailed photography is difficult in such conditions, but it is often possible for the operations room staff in Westminster

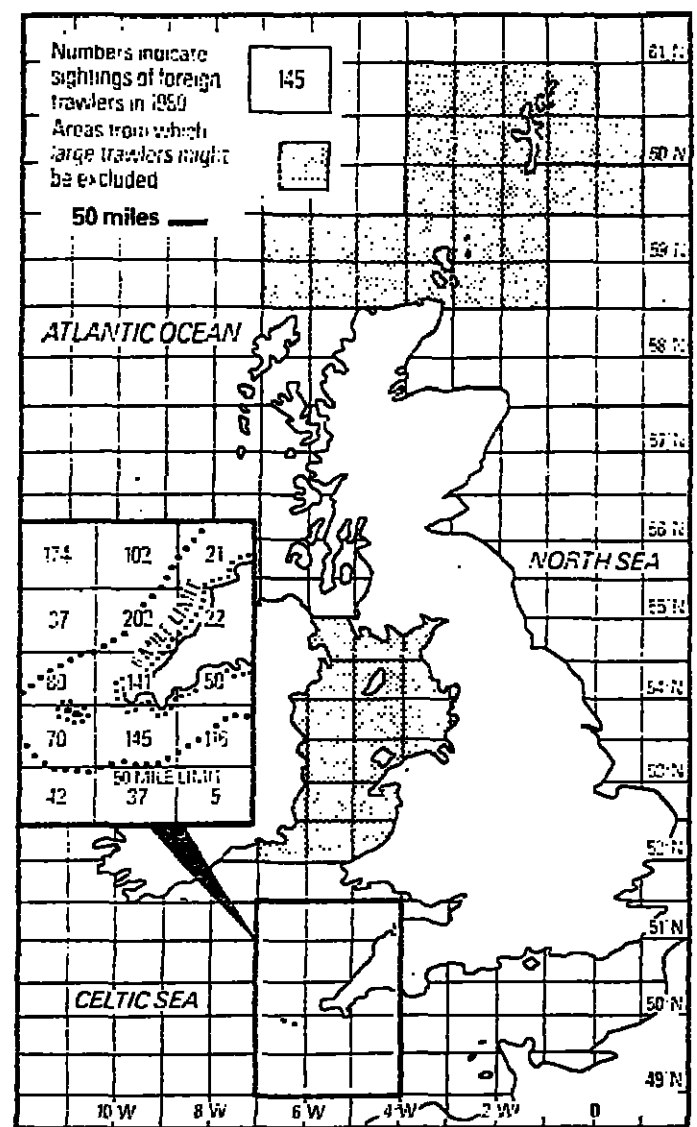
to pick out the names of boats from photographs. If the boat appears to be in the wrong place, or to be using illegal gear, a naval vessel may be sent to it. All information given to the unarmed boarding parties, including remarks made by the ship's crew, is sent back to the operations room. One such report, transmitted last month, reads:

"Skipper said best fishing this area for a year. Where are the British boats?" The answer was that they were in port as their owners were protesting at being undercut by cheap catches from abroad.

Another naval vessel was sent to investigate a trawler which appeared to be fishing in an area where catches are banned. As it moved, all lights on the trawler were turned off. Repeated radio messages to the trawler went unanswered for 25 minutes. Eventually the naval crew picked out the name of the trawler which was owned by a British company and based in a British port.

Widespread publicity about breaches of fishing rules by boats based abroad implies that British fishermen fish the book. But the operations room staff know that British crews, harassed by dodging Icelandic surveillance in successive cod wars, are far from innocent. It is the independent boat-owner from the Continent who is more likely to be intimidated by the large military aircraft which keeps flying low over his boat.

Hugh Clayton



Shaded areas show waters from which large trawlers would be banned under a compromise put forward at last month's unsuccessful EEC fisheries meeting. Britain still hopes to secure a ban in much of the 50-mile limit round its northern coasts.

The inset shows part of a computerized master chart on which the Government has plotted the positions of all foreign trawlers spotted in British waters by fishermen, the Royal Navy and the RAF last year.

There is a heavy concentration of boats in several areas, including south-west England, while other waters are almost never fished.

The chart will ensure that British ministers are better equipped than their counterparts from the rest of the Community to assess claims from abroad for rights to fish near this country's coasts. Such claims are based on the number of past voyages near Britain by foreign vessels.

Sources: Inset, Ministry of Agriculture; Map, Fishing News.

Indications are that Ontario's Tories will recover their absolute majority

Backers of Mr Trudeau



Mr William Davis, Premier of Ontario



"Faithful to the end": Ontario's emblem

Electing Conservative government has long since become an ingrained habit with the people of Ontario, Canada's most populous and most economically powerful province. And it looks as though the habit will be duly perpetuated in the provincial legislature at the dissolution of the government on March 19.

In fact, indications are that the Tories under their Premier, Mr William Davis, will recover the absolute majority which eluded them in the last two elections, in 1975 and 1977.

The standings in the 125-seat legislature at the dissolution were: Conservatives 58 seats, Liberals 34, NDP 33. A recent opinion poll gave them 38 per cent of the popular vote against 19 per cent for the Liberals, and 13 per cent for the socialist New Democratic Party (NDP).

Excluding undecided voters and non-voters, and those who did not respond to the pollsters' questions, the Tories have 54 per cent—enough for a comfortable majority. The Liberals have 27 per cent and the NDP, 18 per cent.

In any event, barring an unlikely eruption of anti-government voter sentiment on the scale of Mount St Helens between now and March 19, the Conservatives will maintain the hold on office which they have enjoyed uninterrupted since 1943.

The campaign has been relatively tame, with neither Mr Stuart Smith, the Liberal leader, nor Mr Michael Cassidy, the NDP leader, lighting any fires of the kind that would be necessary to sweep the well-enriched Tories out of office.

It is a campaign that accords well with the images and atmospherics that the Tories' "big blue machine" is seeking to build around the election: a well-oiled province of nine million people, content despite trying

economic times, and "comfortable" under a Premier whom many regard as a father figure. No overriding issue has emerged, although the opposition parties are doing their best to make campaign capital out of the growing number of plant closures, and increased unemployment, associated with the recession.

Mr Smith, a 42-year-old psychiatrist fighting his first campaign as Liberal leader, has even gone so far as to announce that he will confine himself to economic issues.

To back up his theme of economic mismanagement, he asserts that Ontario has fallen to last place among Canada's 10 provinces in terms of economic growth.

Whether this economic-woes-and-nothing-else strategy is having the desired impact is doubtful. For one thing it has enabled Mr Davis, a former lawyer with 22 years of experience on the campaign trail, half of them as Premier, to sell Mr Smith with the nickname Dr Negative (in some versions Dr No).

It has not exactly helped the relative neophyte get his campaign off the ground.

Mr Cassidy, aged 43, a former newspaper man also fighting his first campaign as leader, repeatedly talks about the 68 plant shutdowns in Ontario last year, affecting 30,000 workers.

Mr Davis patiently counters with the argument that while the Ontario economy does have its weak spots, it is performing well in comparison with competing industrialized regions just across the border in the United States.

The Tories contrived, apparently with some success, to blunt the opposition's economic attack in advance by unveiling—just prior to the election announcement—\$1,500m scheme for economic development under a proposed board

10 drug traffickers await their fate on Changi's death row

Mr Ong Ah Chuan was taken from his Changi prison cell in the gaunt, grey, February dawn and hanged for trafficking in heroin. On death row 10 others await a similar fate, including two women.

Mr Ong was the seventh person to die for trafficking in more than 10g of pure heroin since Singapore made the death penalty mandatory for such an offence eight years ago. Like others before him, he had appealed to the Privy Council in London and to Mr Benjamin Sheares, President of the republic.

Like those of the others, Mr Ong's appeals failed. Although there is no death penalty in Britain the privy council will intervene in Singapore only if it feels there has been a miscarriage or abuse of justice. Mr Sheares has the power to grant a pardon.

Mr Ong, aged 23 at the time, was found in possession of 70g of heroin four years ago when the heroin epidemic in Singapore was at its height. Abusers of hard drugs can expect rigorous treatment. Traffickers can expect little mercy.

Looking at the figures for heroin addicts and users, one can see why. The heroin problem hit Singapore with hurricane force. In 1972 there were four cases of heroin abuse and addiction. Four years later there were between 10,000 and 12,000 in one of the world's most densely populated countries which is the size of the Isle of Wight.

There were a number of reasons for the explosion. The ones familiar in the West: the desire to try something new; the feeling that if you have not tried the experience you are somehow outside the main stream. Singapore also had some reasons of its own: the high pressure to succeed on students; peer group pressure; and, experts now admit, government policy towards heroin users.

In the early 1970s the main method of treatment for heroin addiction was clinical treatment with gradually reducing dosages of the drug until the intake was reduced to zero. Alternatively, methadone substitution was used.

After a six-month course with government-supplied drugs the former user was back on the street without money. Within a short space of time the drug pushers were offering the former addicts a "percentage" in heroin to do their marketing for them.

The pressure to introduce more young people to the habit became a question of providing for the addict's own renewed needs. The use of heroin spread like a monsoon flash-flood through the republic.

Drug users were found in the Army. The police academy found that 13 of its recruits were heroin users. In 1974 five young girls were found taking heroin. In succeeding years the number ran into hundreds. The Government launched Operation Ferrer to identify and isolate heroin users and pushers and take them into the drug rehabilitation centre for treatment.

As one expert said: "Normally if you are ill you tend to isolate yourself. The heroin users seek out company. They are contagious."

But in a society as small and compact as that in Singapore the stigma of an arrest and conviction for the possession of drugs could have a devastating effect on the future of a young person, so the Government moved to make the handling of such drug users as anonymous as possible.

Suspects are given urine tests to see if they are drug users. One sample is held by the investigating authorities and the other by the suspect. The result may be appealed.

If the urine test proves positive the user goes for compulsory treatment, which now takes the form of an initial period of "cold turkey": recuperation, rehabilitation and then a period of strenuous physical exercise under military discipline.

There is now an extensive after-care operation run by about one thousand unpaid volunteers. Many of them are former inmates of the rehabilitation centre.

The "cold turkey" method, harsh though it is, has resulted in far fewer relapses by former heroin users and the epidemic of the 1970s seems to have been brought well under control with about a thousand hardcore addicts left.

Uniformed groups such as Scouts and Girl Guides go through training courses in the dangers of drug use to earn anti-drug badges and local community association involvement ensures that Singaporean society is effectively inoculated with the message.

Even two thirds of the Singapore Anti-Narcotics Association budget is raised through subscription. It will not be for lack of trying if Singapore, ultimately, "kick the habit."

John Best

Cuba blamed for envoys' expulsion

Washington, March 5.—The State Department accused Cuba today of creating a diplomatic incident which led to the expulsion of six Americans from Mozambique.

The Mozambique Foreign Ministry yesterday ordered four American diplomats and the wives of two of them to leave the country within 48 hours, accusing them of "espionage, subversion and interference in Mozambique's affairs".

Mr Joseph Reap, the State Department spokesman, said: "It is not our normal practice to comment on these matters. However, we would like to draw attention to some extraordinary circumstances in the case."

"We are aware of the visit to Maputo of a very senior member of the Cuban counter-intelligence organization, Cuban officials staged a blatant confrontation with our embassy only hours before the Foreign Minister informed the members of our diplomatic mission that they were requested to leave the country in 48 hours."

also aware that a group of Americans opposed to intelligence gathering were residing in Mozambique during the period. Officials said they were unable at present to give further details of the Cuban-American "confrontation" which, they believed had led to the expulsion order.

The four embassy staff members were ordered not for alleged espionage activities, while the two wives were expelled for "carrying out support" for their husbands' work.

—UPI. African connexion: Mozambique's decision to expel the American diplomats who were allegedly members of a Central Intelligence Agency spy network appears to be directly linked to last January's raid by South African troops against houses belonging to the African National Congress (ANC) outside Maputo (Nikolaus Ashford writes from Johannesburg).

A Mozambican communiqué claimed that an American spy network, which had allegedly

Government remains firm against pay demand by Civil Service: increase must be within cash limits

House of Lords. Lord President of the Council and Lord Privy Seal, Lord Hailsham, said in a statement on Monday that the Government would not accept a demand for a 7 per cent increase in the pay of Civil Service servants. He said that the Government would not accept a demand for a 7 per cent increase in the pay of Civil Service servants. He said that the Government would not accept a demand for a 7 per cent increase in the pay of Civil Service servants.

Lord Hailsham said: I want to take this opportunity to explain to the House and to the country the present situation regarding the proposed strike by Civil Service servants. It is clear that the Government cannot increase its offer of 7 per cent. Many in the private sector would regard it as a good offer. The fact is that the Government cannot increase its offer of 7 per cent. Many in the private sector would regard it as a good offer.

Other groups like the local authority workers and the teachers in England and Wales and in Scotland are settling at about the same level within the constraints imposed by the cash limit. It is evident from this that there is no question of discrimination against the Civil Service.

There are many people in private industry who would feel that such an offer at this time could be classed as a good one. I know that the general economic climate and the relative job security that civil servants enjoy.

In August last year I explained to the House that the Government's policy was to be very restricted. The emphasis in 1981 would have to be on the need to reflect the Government's view of the nation's economic situation.

A further cause for concern is the fact that the Government's offer of 7 per cent is now more than 25 years old. Over the years it has become a travesty to describe it as such.

On Monday we will move towards a situation where Heathrow Airport will be closed. The ranks of the nation's customs and excise officers will be seriously depleted. Unemployment offices and offices of the Department of Health and Social Security and other public buildings will be closed.

top heavy and cumbersome in its operations. It is no longer commands general confidence. What is now needed is a thorough overhaul—and this is something I believe to be recognized by the unions as well as by ourselves.

I recognize that civil servants feel that the imposition of increases based on cash limits this year coupled with the present arrangements could mean that the Government intends that Civil Service pay should be imposed by the Government. But this is not the case. I told the union leaders on February 23:

The Government intends to review the arrangements for determining the pay of non-industrial civil servants as soon as practicable and agreed system which takes account of all relevant factors and which will command the widest possible acceptance.

Evidently that review has not taken place and we can see clearly how the new system will be shaped. We have made every effort to ensure that the Government's position and, so far as possible at this stage, to explain our intentions to the union leaders.

Recognizing the concern about such matters as independent fact-finding, comparisons with terms and conditions of service outside, and arbitration, we have made clear to them that these as well as other relevant factors will be taken into account in the review. We will welcome further discussions as the review proceeds.

The Government therefore finds it hard to understand how in these circumstances the union leaders justify their action. It is the extreme step of recommending industrial action to their members.

I think that the union leaders will think it in the best interests of the Civil Service for them to concentrate on making their contribution to the running of the new system rather than calling for industrial action from which the country is bound to suffer.

Lord Hailsham said: I do not think that the Government's offer of 7 per cent is now more than 25 years old. Over the years it has become a travesty to describe it as such.

Home Office officials were arranging for a survey of the incidence of alleged attacks by members of one racial group on another, to be conducted by a number of army officers. Mr. William Whitelaw, Home Secretary, stated at question time.

Officials would also obtain the views of the police, local authorities and the ethnic minority communities. During the exchanges Opposition MPs led by Mr. Roy Hattersley, chief spokesman on home affairs, welcomed the decision announced on Wednesday night to ban all marches in the Metropolitan area for three weeks.

Mr. Christopher Price (Lewisham, West, Lab.) said the decision to ban Saturday's proposed march by the National Front at Lewisham was a welcome decision which everyone in the borough of Lewisham would support.

He went on: Is the Home Secretary satisfied with the decision of the Metropolitan Police to put in charge of the investigation in the New Cross fire, which was the cause of the previous march, the policeman who investigated the Confront case and took down a confession from a South African man and to have no foundation in fact?

Will he discuss that matter with the Commissioner of the Metropolitan Police? He said that the Commissioner would be asked to discuss it with the Home Secretary.

Mr. Whitelaw: (Penrith and the Border, C.) I regret the necessity for the high level of security at the end of this month in London. There are difficulties in the banning of marches. However, there are no difficulties in the banning of marches.

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Ban on marches will avoid grave disorder

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Mr. Whitelaw: The Public Order Act lays down clearly that chief officers of police cannot apply to the Home Office for a ban unless they are clear that the march, if it takes place, may lead to grave public disorder.

There must be a matter of decision and a matter of view on the ground. It cannot be always a matter of clear evidence. That is the provision in the Act that will be rigidly adhered to.

There can be no question of chief officers of police applying for a ban, or of my granting one, on the basis of liking or not liking any particular organization which might march.

The test is entirely whether such a march would be likely to lead to grave public disorder. That is the test and the only basis by which we are prepared to be aided.

Mr. Roy Hattersley, chief Opposition spokesman on home affairs (Birmingham, Spurbrook, Lab.): I affirm the support and confidence of my constituents in the Metropolitan area.

The march which is thus prevented would be a disgraceful display of the sordid standards of the National Front. I have no doubt that the Home Secretary was right to behave in the way he did.

The publications to which he referred earlier, have now fallen into the habit of naming individuals and publishing their names. It is clearly the intention of the publishers of these publications to harass those individuals. What protection can the Home Secretary provide for these unfortunate people?

Mr. Whitelaw: I am grateful to Mr. Hattersley. There may be some misunderstanding under the Public Order Act as it stands, neither the police in their application, nor

I in giving assent to it, can pick and choose a group to be throughout the whole of the Metropolitan Police area. That is under the Act. I must say to those who might think to have chosen a particular area, I do not think it would be possible that it would be satisfactory, because it is possible to have a march in an area close at hand to the one where the trouble might lie.

To those who doubt, as I doubt, about having bans—I do not doubt them, but on the other hand, there is a danger of grave public disorder and grave disorder to the people who wish to live a peaceful life in the area. It is the duty of the Government and it is the duty of the Home Office to make such a ban in these instances.

On the publications, I agree with him about having bans. I have had a letter from Mr. Alfred Dubs (Wandsworth, Battersea, South, Lab.) on this subject. I have had a letter from Mr. Dubs, who is a member of the Metropolitan Police, who is a member of the Metropolitan Police, who is a member of the Metropolitan Police.

The Home Secretary has to be seen to be completely even-handed (Conservative cheer) or else he will simply add to the discontent, proper protection of the individuals, organizations that Labour MPs find so objectionable.

Mr. Whitelaw: There are various features of the march on Monday which are of concern to me. I am not sure that the Home Secretary is making a mistake in not including the effect of the march on the city in his decision. It is not merely in London but in the whole of the country that the march is planned, and it is a march which is planned, and it is a march which is planned, and it is a march which is planned.

There are other ethnic minorities. I would mention to the House that the Home Secretary is making a mistake in not including the effect of the march on the city in his decision. It is not merely in London but in the whole of the country that the march is planned, and it is a march which is planned, and it is a march which is planned, and it is a march which is planned.

It is important to say that we are a tolerant society. We in this House are determined to make sure we continue to be so.

Mr. Whitelaw: When we publish the report on public order, there will be an opportunity for this House to consider the whole question of how marches should be dealt with. There always appears to be a desire to consider the whole question of how marches should be dealt with. There always appears to be a desire to consider the whole question of how marches should be dealt with.

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which distressed us all. It is only fair to say it distressed some of those who were the organizers of the march. It is important to say that it was very distressing, but even-handedness was crucial. I have been totally even-handed in the responsibility to the police to apply throughout the whole of the Metropolitan Police area for three weeks.

I notice some MPs appear to be like it. They cannot accuse me of not being even-handed because that applies to every march. Mr. Greenfield (Lancaster, Lab.): The dislike of this organization is not confined to MPs on this side.

This House would wish well to the police and would wish to see the effect of the march on the city. It is not merely in London but in the whole of the country that the march is planned, and it is a march which is planned, and it is a march which is planned, and it is a march which is planned.

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Unions urged to discuss new body

House of Commons. Mr. Barry Hayhoe, Minister of State, Civil Service (Houses of Commons, Hailsham, C.), repeated Lord Hailsham's statement in the Commons.

Mr. Hayhoe said: I do not think that the Government's offer of 7 per cent is now more than 25 years old. Over the years it has become a travesty to describe it as such.

On Monday we will move towards a situation where Heathrow Airport will be closed. The ranks of the nation's customs and excise officers will be seriously depleted. Unemployment offices and offices of the Department of Health and Social Security and other public buildings will be closed.

Britain's civil servants have a right to know why the Prime Minister and Government who never weary of expressing opposition to nationalisation are now bent on imposing a wage policy on those employed in the public sector.

How can the Government justify what most reasonable people would interpret as blatant discrimination against the public sector? How will the new order and agreed system of determining Civil Service pay differ from the pay research unit procedures and the principle of fair comparisons enshrined in the pay research operations that have preceded us for so long?

truth of the action going to be taken on Monday. There is no doubt that the new system will differ from the present one. It is asking me to preempt the review the Government feels most urgently to be undertaken.

I do not know whether the new arrangements will be concluded in time to operate in 1982, but the sooner the union leaders can get over these matters the better.

Mr. Jack Straw (Blackburn, Lab.): This Government has plunged morale in the Civil Service to an all-time low. It is a disgrace that the Civil Service pay is right back in the political arena.

Mr. Hayhoe: On morale being particularly low, there can be no doubt that the Civil Service pay is right back in the political arena.

Mr. Paul Dean (North Somerset, C.): Many civil servants resent and deplore being led into action which is wholly contrary to the best traditions of the public service. I encourage them, he should press ahead as fast as he can with the arrangements for pay and pensions which will avoid the disadvantages of the existing pay research system.

Mr. Hayhoe: I give the assurance that we will press ahead with these arrangements. There are many within the Service who take account of the traditions of that service and who are not prepared to accept a new system of pay and pensions which will avoid the disadvantages of the existing pay research system.

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Tory attack on 'street politics' of the Left

Mr. Robert Adley (Christchurch and Lynton, C.) called upon the Home Secretary to seek a report from the Home Office on the relationship between the maintenance and enhancement of educational standards and an improvement in the standards of resources and the fundamental importance of this investment in the struggle for national economic recovery.

Mr. Adley said: The street politics of the Left whether it be on the Grunwick picket line or its behaviour referred to as an ugly manifestation of the Left (Labour cheer).

Will he deplore this walking strike? (Further protest) which does so much to undermine the standards of the country. The country had been promised a new era in the development of education. Rising standards were to be achieved by the Government.

Mr. George Cunningham, an Opposition spokesman on home affairs, (Islington, South, and Finsbury, Lab.) said: The opinion expressed gloriously by Lord Denning in 1975 in the Hubbard and Pitt case, when he said that the Government's policy was to be a 'street politics' of the Left, was part of the historic rights of the British people and that we had to live with it at our peril (Labour cheer).

Mr. Mayhew: All these cases depend upon their facts and the exercise of common sense.

Mr. Mayhew: All these cases depend upon their facts and the exercise of common sense.

Minister says Labour attack on education raises false and unnecessary alarm

The last economy the country could afford in a time of momentous technological change was a cut in the education service. Mr. Nicholas Budge, Education Secretary, said.

Mr. Budge said: The education service in England, through the cooperation of all its partners, to secure maximum value from the extensive resources which continue to be available to it.

He said that in raising tones of hostility the Government before and after the general election, had talked about the quality of education being maintained and improved. He said that the Government was determined to maintain and improve the quality of education.

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The Government was allowing both in the current year and the coming year for a higher cost per pupil than in the previous year. The Government's plan for the next year was to publish next week but it was planned to maintain its position in later years as well.

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Partners in alliance with no place to sit

House of Lords. The Liberals objected to the next European Assembly elections being held at a time which ignored the commitment entered into by all member countries that they would be by a uniform election system throughout the Community.

Lord Banks (L.) said at the opening of the committee stage of the European Assembly Elections Bill.

and the Social Democrats in either House of Parliament.

Speaking from the rear Labour bench, he said: The new future has not yet been established. We do not know where to sit. This must be made an inconvenience to everybody else.

Report on telephone tapping 'not whitewash'

The Diplock report on telephone tapping had not been a whitewash, Mr. Robert Cresswell (Kilgobbin, Lab.) said during questions.

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Bill on disabled to be assisted

The Government was prepared to give every assistance with the presentation of a new Bill on the provision of disabled people to access by disabled people to buildings.

Mr. Whitelaw (Penrith and the Border, C.) said: The Diplock report on telephone tapping had not been a whitewash, Mr. Robert Cresswell (Kilgobbin, Lab.) said during questions.

A philosophy which rests on Christian assumptions

Labour MPs who were shouting their protest against the Prime Minister at question time were "little different from the young Communists in the church yesterday".

Mr. Whitelaw (Penrith and the Border, C.) said: The Diplock report on telephone tapping had not been a whitewash, Mr. Robert Cresswell (Kilgobbin, Lab.) said during questions.

Budget opened next week

The main business in the House of Commons next week will be: Monday: Timetable motion on the Transport Bill and Appropriation (Northern Ireland) Order.

Mr. Whitelaw (Penrith and the Border, C.) said: The Diplock report on telephone tapping had not been a whitewash, Mr. Robert Cresswell (Kilgobbin, Lab.) said during questions.

Parliamentary notices

House of Commons. Today at 3.30: Private Members' Business. Bill, second reading.

Mr. Whitelaw (Penrith and the Border, C.) said: The Diplock report on telephone tapping had not been a whitewash, Mr. Robert Cresswell (Kilgobbin, Lab.) said during questions.

THE ARTS

The Crucible
Comedy

Irving Wardle

Largely recast since its first appearance at the Cottesloe last October, Bill Bryden's fine production transfers to the West End with increased authority. It originally struck me as a point of convergence between the company's work in American drama and Puritan history; and the added power with which they have now charged the stern formalities of Arthur Miller's seventeenth-century Massachusetts has yielded the best version of the play that I have seen.

Its key qualities are passion and clarity, held in perfect balance so that no emotional outburst obscures the line of narrative argument; not an easy thing to achieve in a story containing so much bullying, accusation, and mass hysteria, and which can easily swamp precise ironies under waves of easy pathos and indignation.

The play starts at an emotional peak with the Reverend Parris's distraught prayers at his daughter's bedside and continues its panic-stricken crescendo up to the arrival of the grave Rev. Hale, the first witch doctor. But amid all the inquisition and threats, the plague of superstition runs through the village, the non-religious motives underlying the epidemic are laid out as unmistakable evidence: not only of Abigail's aims, but of Proctor's wife; but Putnam's land-grabbing, and Parris's fear of losing his job.

Nothing at this stage, is done to lead the dice in favour of Mark McManus's Proctor, who first appears as a dour employer, has pulled straight down over his eyes, threatening his truant servant with the whip; and then capitulating to Caroline Embury's Abigail at their first reunion since his wife turned her off the farm. The sense of an austere, frugal existence, in double discipline to the soil and to clerical authority, is inherent in the whole stage picture.

The degree of social and domestic reality established in the magnificent first two acts of the production is a guarantee of sustaining belief when the play finally turns to undisguised melodrama and an operatic death act finale.

The third act trial, much improved since the Cottesloe performances; thanks partly to the human variety Tony Haygarth is now bringing to the MacCarthys Governor Danforth, still a bigoted tyrant, imperious to rational argument, but now quite capable of the soft approach, and of relaxing for an off-duty gossip about trials of the past. Also, the new casting includes such actors as Tony Ray and John Barrymore, totally naturalistic, no matter how heightened the surrounding context, who lend complete credibility to the sight of ordinary villagers swelling into ecstatic creatures of the court or quietly standing their ground against it.

The second act, however, remains the main experience of the evening. Its construction never ceases to amaze; moving from a quiet evening on the Proctor farm, to the news of the mass arrests, and finally the disappearance of Proctor's wife in chains. It is in this act that Mr. McManus really takes over; writing under the calm gaze of his still mistrustful wife, alternately gentle and lashing out like a staked bull; and moving from suppressed doubts to open defiance in the duologue with Judge Gurney's modestly implacable Hale.

Lynne Farleigh, taking over the role of Proctor's wife, begins by telegraphing restless anxiety from her calmly impassive features, and proceeds to a wonderful expression of extreme emotions with the minimum of physical means. It is typical of her scenes with McManus that whenever they part, they merely pat each other's full embrace is reserved for the moment before the gallows.

Some of the reviews on this page are reprinted from yesterday's later editions

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Redford in a far from ordinary direction

Ordinary People (AA)
Plaza 1

The Great Santini (A)
Gate 3, Camden Town

Penitentiary (X)
Eros, Piccadilly; Odeons
Kensington, Westbourne
Grove, Swiss Cottage

Blood Beach (AA)
Screen on the Green;
Scene, Leicester Sq.;
Odeon, Kensington

Ordinary People, Robert Redford's debut as a director, has already earned a fortune in the United States as well as a heap of Oscar nominations. Something about it, evidently, has caught the imagination of the American public in a way that is rare for such a quiet, modest and, indeed, ordinary film. The director's contribution is reticent and unobtrusive; his aim, not surprising perhaps in an actor, had been to give the stage wholly to the text and the performances; and both are, certainly, exemplary.

The script is based on a novel by a Chicago housewife, Judith Guest, which Redford snapped up before publication. The people in it are "ordinary" in the sense that they represent the moneyed suburban bourgeoisie, a class which almost exclusively, but which has now, as Robert Redford points out in an interview, fallen out of fashion with progressive American film-makers.

Their story too, is in its essentials ordinarily familiar to film audiences. Calvin and Beth look like model parents; but since the death of their adored elder son, and his own suicide attempt, the younger boy, Conrad, has become solitary and estranged from them and from his school friends. Reluctantly Conrad goes to a psychiatrist and psychiatry does not betray the national faith in it. After a succession of crises, which finally convince the parents and sense of guilt that blocks his mind, and emerges to face the problems that still read the family.

So far, so ordinary. But, whether the writer (Alvin Sargent) or director were all too aware of it, there is a deeply subversive content in the film; and perhaps it is this upon which—again maybe only half-consciously—the American audience has seized. On the one hand, it is a story of a happy, WASPish family (there is a comic conversation between Beth and her mother about the Jewishness of the psychiatrist); but Conrad's problems expose the shaky foundations of the entire institution. Calvin, the caring breadwinner, is revealed as insecure, weak, quietly terrorized by his wife and by his own



Donald Sutherland and Mary Tyler Moore in *Ordinary People*

bewilderment in face of the family break-up.

In Beth—played by Mary Tyler Moore, who made her name as American television's ideal wife and mother—the maternal myth is undermined as ruthlessly as in David Storey's *In Celebration*. Beth is the idealized and idealized American woman, perfect in her culture, in the kitchen, on the tennis court, the golf course, at parties. But in her total inability either to come to terms with her son's problems or to acknowledge her own (an irrational resentment of the surviving son since the loss of the adored older boy) she is exposed as the prisoner of the myth. The traditional matriarchal has over the years made her incorrigibly egocentric—unwilling or unable to acknowledge criticism, change or indeed anything that is disagreeable or attacks her decreed status quo. At the finish the film posits for this ordinary family unit is for the mother to walk out on the affair and the home, leaving father and son alone, reconciled to each other and their problems.

The Great Santini (whose title might lead you to expect almost anything except an American family saga) is, conversely, about a mother, Colonel Bull Meekins, is an army husband, dragging his reluctant family around the country from one base to the next. Exposed to society at large, he is just a dull drunkard; but at the start of the film we see him enjoying a civilian restaurant with his objectionable pranks at a unit farewell party). On duty as a Marine Corps jet ace and com-

mandor, he is a marionet. At home, too, he is as tough a disciplinarian, bellowing his long-suffering wife and resentful family out of bed in the small hours and subjecting them to inspections and epithets like "hogs" or, in good moods, "sports fans". The special victim is his 15-year-old son, who, whose intelligence and gentleness are the sort of sissy qualities that rouse his macho father's ire. The full poverty of this ultimate fascist is revealed, however, in his petish fury when his son beats him in a ball game.

The character is played by the excellent Robert Duvall (in some respects it might be the private life of the military man he plays in *Apocalypse Now*) and is a wonderful creation, overdrawn but always with such skill that it remains always just within belief. This apart, the film is a mess of mixed excellences. A side plot involving the boy's friendship with the black maid's outsider son is interesting, but remains an integrated and unrelated excretion. In the end, too, Lewis John Carlino, as director and writer, equivocates. A father and victimized son are reconciled by mutual understanding; and the father is hallowed by his death on duty. In the last scene we see the boy taking on his father's autocratic role within the family. It remains in the perception of the beholder to divine the author's own feelings.

Both these films incidentally show American acting at its professional best. In the Redford film an unaccustomed weak and tentative character brings out new qualities in Donald Sutherland. A new

actress, Blythe Danner, is extraordinary as the army wife, proud, dutiful, submissive to the husband-officer. Both the young actors who play the respective sons are astonishing for their sensitivity, tact and emotional range. Timothy Hutton, in *Ordinary People*, is the son of another actor, the late Jim Hutton. Still the skinny, pimply doe-eyed adolescent, Michael O'Keefe in *The Great Santini* acts with the kind of inflexible instinct that maturity and training rarely bring.

Penitentiary is a black film, written, directed and produced by Jamaica Fanaka, which combines with unashamed exploitation (sex and violence are intercut in the climactic scenes with transparent calculation) very efficient qualities of writing, acting and *mise-en-scène*. The starry Leon Isaac Kennedy plays a man committed on a virtual murder charge to a virtually all-black prison, where he effectively defends himself with his fists against the rule of bully force and homosexual proprietorship. It is rough fast-moving and enlivened by arresting character performances.

Blood Beach, written and directed by Jeffrey Bloom, offers exactly what is expected of it: a thing that emerges from the beach; mysterious disappearance; a cache of corpses and human spare parts; heroic life-guard; distressed scientist; oblique cops; and eerie music to point up every moment of horror, just in case you do not notice. On no account, should the short work *Ordinary People* be missed. Directed by Roger Christian, a former National Film School student, *The Don-*

lar Bottom recaptures something of the Ealing comedy spirit. It is the story of some schoolboys whose scheme to inherit their fathers' legacies against corporal punishment mushrooms throughout Scotland and results in a cut-throat juvenile stock market.

The ledged leading boy, with all the uncorrupted seriousness and self-possession of early teenage, has most of the best lines. Faced with the threat of beating he politely explains: "I would not mind that, sir, I have a two pound ten shilling bottom." And finally, when the grown-ups have manoeuvred the financial ruin of his scheme, he declares, with the grandeur of tragedy: "You force me, gentlemen, to say something I hoped I would never have to say: a minor is not liable for his debts."

Off the beaten track there is currently a lot to see. The ICA is showing nightly at 9 p.m. Gael Donaghy's *The Forest Earth*, a formal, hieratic chronicle of the centuries-old struggle to reclaim its ancient rights in the land. Miss Donaghy made the film over a two-year period, and the peasants themselves re-enacted for her their historic and often bloody invasions of their sequestered properties.

There are, too, unaccommodated riches of silent cinema to be seen just now. The monumental *Napoleon*, with Carl Davis's orchestral accompaniment, his still two more performances (tomorrow and March 15) at the Empire, Leicester Square; though at this stage you probably need underworld connections to get seats.

David Robinson

LMP/Blech
Festival Hall

Barry Millington

The prima donna for whom Mozart wrote "Al desio di chi l'adora" (an aria to replace Susanna's "Deh, vieni" in later performances of *Le nozze di Figaro*) must have been a very different person from Wednesday's *Adamo*, Janet Baker. "Al desio" was substituted in order to provide Adriana Fetrarrese del Bene with a vehicle to display her talents and comeliness; and it is a pity that the opera's dramatic impact may have been slightly diffused by the large space of the Festival Hall, but

there was still no lack of intensity generated.

For the remainder of the programme, Mr. Blech directed the London Mozart Players in highly pleasurable performances of Mozart's fourth and Beethoven's fourth symphonies. Mozart's G minor does not demand blinding reverence, though to misery as this bitter truth dawns, and finally desperation. All this within the standard classical forms of recitative and aria.

Abetted by an anonymously (but acceptably) scored accompaniment, the orchestra realized all the potential in this, a searching little opus. The dramatic impact may have been slightly diffused by the large space of the Festival Hall, but

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Christopher Bruce spreading his net wide

Quite by chance, Christopher Bruce is in the happy position of having a series of his productions follow each other in the next few weeks. Ballet Rambert will give four of his ballets during their season which starts this evening, one of them having its first public performance as either producer, songwriter, singer, guitarist or pianist.

Little has been heard of him since his memorable pop hit of 1973, "Right place, Wrong time", so it is pleasing to welcome him back, typically in several guises: as co-writer, with Doug Pomeroy, of the songs on B. B. King's new album, as the producer of Chris Barber's latest recording, and as a guest in the trombonist's current touring show, which takes as its theme the music of New Orleans.

Wednesday's programme opened in the most obvious way, with a brass band parading through the audience playing "Just a closer walk with thee" and "The saints". It was succeeded by Barber's regular act, moving from the straight traditional style through a lively jump blues to a pair of Ellington tunes, "Creole love call" and "Queen Bees".

At the moment, however, he is busy enough making sure that all his productions are ready in the right condition. "I like to maintain my works, like maintaining a car, because otherwise things go wrong. My choreography is not easy to perform: I tend to create a lot on my own body, so it needs a mixture of classical and modern experience. This is another reason for



was a marvellous experience, to be able to dance those semi-character roles which many dancers never get nowadays; I learnt a lot from them about the theatre.

"I had 17 years as a dancer, and I would still like to dance. I might not stand the journey any more. Later this year the BBC are going to do *Cruel Garden* for television, and I shall dance in that, so I have to keep in shape. If the chance comes, I might try a condition. I might even start my own small group."

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wanting to work with just a few companies. I am still associate choreographer with Rambert, and I am still working with Australian Dance Theatre; of course I can't keep rushing off there to take rehearsals, but they have the understanding to look after them. Then I have worked a lot with Tanz-Forum, and I seem to be developing a relationship with Netherlands Dance Theatre—all companies with the mixture of modern and classical background. And it's easy to jump on a plane and in an hour you are in Germany or Holland."

During Ballet Rambert's season one of Bruce's ballets will be danced by students from the Rambert Academy. That came about because "I helped to set up the academy, and I am still a sort of honorary director. I made *Dancing Day*, as part of a composition course there."

"I enjoy working with young people. When you work with experienced dancers, perhaps they maintain a steady high level, but I find it exciting to see young dancers developing fast. I think it is really an achievement that, after just 18 months of the academy, six students can come and appear with the company."

"The piece I have made for them is related to my latest work for Tanz-Forum, *Dancing Day*, set to music by Holst, and the other is Stravinsky's *Cantata*. In both, I have been influenced by medieval ideas which I have become very interested in. In those days, religion was not something separate from ordinary life, but part of it. So in these ballets

The Marriage of Figaro
BBC 2/R3 (tomorrow)

Michael Ratcliffe

Jean-Pierre Ponnelle's *Nozze di Figaro*, filmed at Shepperton in 1976 and bought in by the BBC from United, Munich, begins brilliantly with what appears to be the lengthening shadow of a fat nose on an attic wall. This heralds the herald for the arrival of Harlequin, Hanswurst, or Mr. Punch, but the marriage of Figaro and Susanna's marriage bed, brought in by the groom-to-be.

That it is also suggesting the feared nose of the cuckold seems likely, for in this hand, some splendidly gaudy version of Mozart and the Ponce's masterpiece: the war between servant (Hermann Prey) and master (Dietrich Fischer-Dieskau) is not merely for social and political justice but for sexual equality too, and the bed remains in the centre of the action for the whole of the first act. Figaro taunts the Count with Susanna's bridal veil; the bed is their heart, and the Count's anger so perfectly judged, that momentum is never lost for long: the playing is in the classic line of this orchestra in a performance close to the glorious Covent Garden following year. Certain speeds will seem wilfully slow to some tastes, but the overall patterning and shape are so beautiful, each intonation so perfectly judged, that momentum is never lost for long: the playing is in the classic line of this orchestra in a performance close to the glorious Covent Garden following year. 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	Depth (cm)	Conditions	Weather (5 pm.)		
	L U	Floose Good	Off Runs to glaciers	Powder Good	Temp. °C
Powder on hard base.	150 360				-2
Avaritia	190 230	Good	Fair	Good	-
Good pine skiing.					
Grindelwald	90 200	Good	Powder	Good	Fine -8
New snow on good base.					
Isola	200 40 70	Fair	Fair	Fair	Fine 2
More snow still needed.					
La Plagne	150 450	Good	Powder	Good	Fine 0
Good skiing everywhere.					
St Anton	110 480	Powder	Powder	Good	Fine 5
Good skiing conditions.					
Sesfeld	11 160	Good	Powder	Good	Fine -2
New snow on good base.					
Tignes	150 250	Good	Heavy	Good	Cold 2
Soft snow on hard base.					

In the above reports, supplied by representatives of the Ski Club of Great Britain, L refers to lower slopes and U to upper slopes. The following reports have been received from other sources:

Depth (cm)	U	Powd.	Weather	
SWITZERLAND			Kandersteg	90 200 Powder — -8
Adlonhofen	80 180 Powder — -6		Garmisch	150 200 Powder — -10
Davos	140 250 Powder — -8		Lenz	80 180 Powder — -10
Braunwald	100 250 Powder — -8		Engelberg	100 200 Powder — -10
Cham	20 100 Powder — -8		Mals	170 150 Powder — -10
Château d'Oex	60 140 Hard — -8		Val d'Aoste	100 150 Powder — -10
Crans	100 200 Powder — -8		San Gervasio	100 150 Powder — -10
Davos	80 150 Powder — -8		St. Moritz	20 60 Hard — -15
Flumserberg	90 200 Powder — -8		St. Moritz	20 60 Hard — -15
Obervellach	90 200 Powder — -8		Unterwasser	90 140 Powder — -10

A warning Lord Thorneycroft cannot ignore

Lord Thorneycroft is the wise old uncle of the Conservative Party. He played that role to perfection in the run-up to the last election. In the early phase of the present Parliament he was less prominent, largely because the Party was in office but he was not in the Cabinet.

In the past few weeks, though, he has come much more into the picture, with broad hints to the younger ones that it was time they started speaking like politicians again. Forget about dogma, take care of the voters—that has been his message. It was because Mr John Biffen was falling over himself to forget about dogma in his controversial television interview with Mr Brian Walden that Lord Thorneycroft so much approved of his performance.

In this role he remains a considerable asset to the party. He has the panache and flourish of a bygone era, which enhances the impression of wisdom. His age and special position enable him to offer candid advice, to propose changes in political style, without being suspected of personal ambition. He is one of the few people around the top in Conservative politics from whom Mrs Thatcher could afford to take uncomfortable advice without fear that her position was being undermined.

Such a man must always be valuable, but double so in the Government's present condition when it is faced with a daunting problem of presentation—whatever the substance of its policies turns out to be.

This is not the only role, however, of the Conservative Party chairman. He is also responsible for running the party, and it must be said quite simply that in this task Lord Thorneycroft has made rather a mess of things. It is not just that he is not particularly interested in administration himself. He has not surrounded himself since the election with people of sufficient weight to perform that function for him.

Before the election Lady Young, as deputy chairman, acted as a virtual managing director. But she is now Minister of State for Education. To fill the gap at Central Office Mr Alistair McAlpine became deputy chairman as well as treasurer. As treasurer he has been notable for his skill at raising money, and as deputy chairman he has been notable for spending even more than he has raised. It is a tendency with which many of us must involuntarily sympathize, but the consequences have been embarrassing.

In the financial year 1979-80 the Party was spending on the basis of a projected income of £5.3m, but it received £500,000 less than that. In the present financial year it planned to spend £5.3m, but its income is now estimated to be falling £1.5m short.

For the coming year it is now accepted that income is not likely to be above £3.8m, which will require even more severe economies than are implied by comparison with the projected income of the year before because substantial interest will now have to be paid on the accumulated loss.

Not surprisingly, gasps of anguish are heard as belts are tightened. After the last election the Party was run with out departmental budgets. Then last summer Lord Thorneycroft aimed to cut spending by £750,000 through a number of savings, including the highly

controversial decision to eliminate the community affairs department as a separate entity. In December, departmental budgets were reimposed again and it was decided that 10 per cent must be cut from what each department had spent—excluding salaries—taking an average between the years 1975-80 and 1980-81. Now this week further cuts of 10 per cent have been imposed.

It is impossible for economies of this dimension to be painless. The effects will be felt by the Party in the country as well as at Central Office. The research department, which was brought into the Central Office after the last election by Lord Thorneycroft in another of his controversial moves, seems likely to suffer. So will public relations. One probable saving will be the £200,000 or so spent on



Lord Thorneycroft: a good deal of stick lies ahead.

Saatchi and Saatchi for party political broadcasts. Between now and the election at any rate these broadcasts are likely to be produced by the Party itself.

Economies on such a scale are bound to increase the tensions that already exist within the party. Lord Thorneycroft has never got on particularly well with the National Union, the leaders of the voluntary side. They have felt that there has been a lack of consultation and that he has been rather too keen to look at ways in which their operations might be improved—in the organization of the annual conference, for example.

There will be all the more discontent if the party does as badly as is expected in the local elections in May. It is one of the injustices of politics that when the party wins votes the parliamentary leaders get the credit, but when it is in electoral difficulties the party organizers take more than their share of the blame. Lord Thorneycroft can therefore expect a good deal of stick before May is out.

Altogether, it seems most unlikely that the present team at Central Office will be able to restore confidence within the party. The feeling will have to be conveyed of a new beginning. The most obvious means of doing this is to have a new chairman. But there are difficulties about this. The natural replacement would be Mr Francis Pym, but he became Leader of the House of Commons only two months ago. It would be almost equally undesirable for him to combine the office with the chairmanship of the party or for there

to be another change so soon in the leadership of the House. It is hard to see anyone else, whom Mrs Thatcher might consider appointing, who would both manage the party better than Lord Thorneycroft and be equally effective as a guide and counsellor.

The need for a wise voice will become all the greater with the emergence of the Social Democrats, who present the Conservatives with unaccustomed problems. As Lord Thorneycroft has been one of the first to appreciate. But if he is to continue he will need a political figure of some standing as his deputy. The role of managing director is in effect being filled at the moment by Mr Alan Howarth, who was Lord Thorneycroft's personal assistant, then became head of the research department, and now combines that function with the office of vice-chairman. He is an active coordinator, but he does not have the seniority and standing within the party to command the confidence that alone could make unpleasant measures generally acceptable.

Unless Lord Thorneycroft appoints someone of such seniority as his deputy it would not be surprising to see him swept away in the course of the year in a surge of Conservative anguish. Nor would this be an unjust outcome if he cannot or will not find such a deputy. He will not have been penalized for speaking out. He will not have been punished for his lack of doctrinal conviction. It will simply be that having spent so much time warning the Government to protect its flanks from the media and directed the office with the chairmanship of the party or for there

Now for the L-shaped slump

Economists love to use the letters of the alphabet to describe recessions. They can be V-shaped (a quick recovery) U-shaped (things sagging along a little before turning up) or even W-shaped (there is a false dawn, with another bout of recession before things pick up again).

The recession we are in now is beginning to look suspiciously like an L-shaped slump. The drop in output is the worst since the war; the drop in manufacturing output is the worst this century, worse even than 1929. Even more depressing, there is no sign, whatever ministerial optimists may say, that any significant recovery is in sight.

Output is now about 6 per cent lower than it was at its peak in the spring of 1979. Unemployment has risen by well over a million.

It is all very different from the aspirations the Government had on beginning its policy. They believed that as long as the country knew that tough money policy was going to be pursued, this would on its own get down the inflation rate. Having conquered inflation, they would be able to get sustainable growth, so that we would end up with price stability and rising output. Neither of those things will be achieved under present policies.

Ministers keep anxiously searching for signs that we have touched bottom. We have been told in the House of Commons that we have reached the bottom of the trough. But the fact is that we have not. The Government's policy is to keep the economy in a state of permanent depression, but it actually wants a straightforward recovery of £1,500m a year instead of the deflation we are currently suffering.

The Government clearly believes that its overall policy have certainly not been tough. Instead, it says that way things have worked means that the balance between the various sectors of the economy has to change. Next week's Budget will shift a burden of taxation away from companies towards individuals. Doing this is a sensible thing as far as it goes. But it does go very far to achieve the long term recovery of the economy and it will do terrible things to the Government's popularity.

The real burden tax on the economy has gone up and this Government and the tax individual wage earners will almost certainly go up again over the next year. People have votes; companies do not. The is no way that the Government will be able to give sustained assistance to companies at the expense of the rest of us and win the next election.

Cuts in interest rates and shifting taxes from companies to individuals may help in the short run to slow down the rise in unemployment, but the will not produce sustained growth in demand and output. Because the cuts in interest rates are not large enough. It is not, any case, so much the way the cake is shared out as the fact that it is too small which is the problem. Whatever a Chancellor says about this year's Budget for business the closures will go on for some time yet. Even the drop in the value of the pound, recent weeks, although good for industry, will have only limited effect.

Would any policy aimed at getting more expansion be automatically to more inflation? Not necessarily. For example, cuts in tax on shareholders, national insurance contributions would actually reduce costs at prices. So would a reduction in the rate of value-added tax.

Increased investment in parts of the public sector could also help to cut output without fuelling inflation. Inflation is not the only thing which matters in the economy. So do jobs, real living standards and investment in the future. So far the Government has tried to claim that it can do nothing about these things. It is a pity that the next year would be a good time to start

Foreign delegations were taken to see the Olympic village—now a plum residential area—art galleries, art farms, free breeding stations physics institutes and the place where they still decorate lacquered wooden boxes with miniature paintings. They were suitably appreciative.

Tass meanwhile has been scurrying around the world gathering words of praise for the Congress from the bourgeois press, rather as theatres pick out individual words from censorious reviews to use in their advertising.

And as the flow of documents begins to pour from the Soviet printing presses, Party officials up and down the country are poring over their new instructions. They have been set some herculean tasks. But it will be another five years before they have to go back and give an account of themselves. And meanwhile, a much more urgent priority is coming up. On Sunday it will be International Women's Day, a big Soviet holiday: time now to go to the market and haggle for some flowers and lay in a good stock of vodka.

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Michael Binyon

William Frankel takes a critical look at the EEC's attitude towards Middle East peace efforts

What President Sadat really told Europe

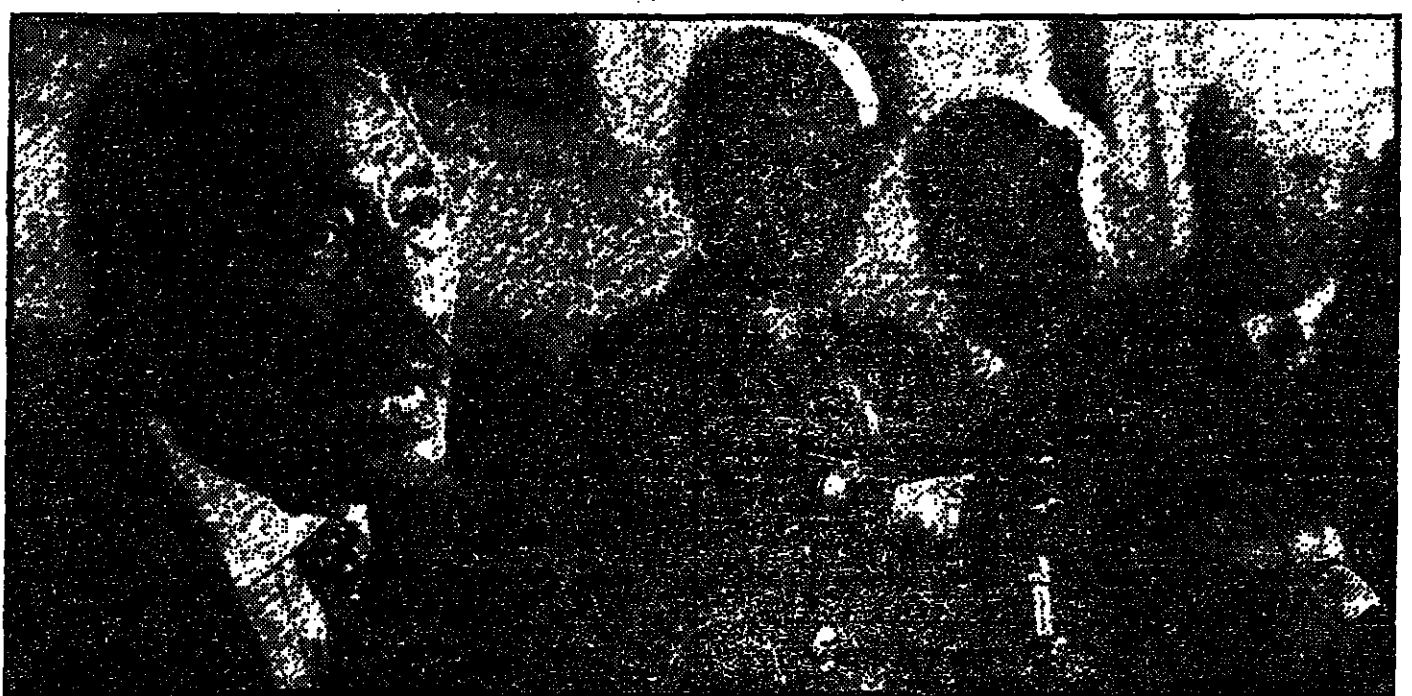
The European Parliament is seldom newsworthy but it did make an impact on the international scene one day last month when President Sadat delivered an address on peace in the Middle East. The Egyptian leader has a flair for capturing headlines and this speech was widely reported because of its topicality in the light of the EEC's efforts to involve itself in the Middle East peace process.

His main points can be reduced to three. He made it abundantly clear that he was not abandoning the framework of the Camp David agreements. Secondly, he declared his support for Palestinian self-determination and the creation of an undefined "Palestinian entity" after a transitional period. Thirdly, he saw Europe's role in the peace process as no more than providing "additional security guarantees".

Nevertheless, the Foreign Office appeared to be thrilled with the speech and its spokesman commented: "We are, of course, delighted by the welcome which President Sadat has given to European efforts for peace in the Middle East." But President Sadat had patently done nothing of the kind. He was courtesying, requesting his hosts not to interfere with the slant given to this message by the Foreign Office only illustrates the eagerness of Lord Carrington, the power behind the European initiative, to promote and dignify his deplorable diplomatic campaign.

The recent history of Europe in Middle East affairs is a craven one of expediency. Ever since President Sadat transformed the Arab-Israel conflict with his journey to Jerusalem in 1977, the European community has shifted uncomfortably from one foot to the other. Five months earlier, its Council of Ministers had declared its interest in affirming, for the first time, the "need for a homeland for the Palestinian people", a statement unlikely to have any other practical effect than as a gesture of friendship and support for the rich and powerful Arab world.

The Sadat mission was awkward for the EEC. On the one foot it was difficult to object to this giant step towards peace;



President Sadat: his mission proved awkward for the EEC.

on the other, enthusiastic support was likely to anger the oil suppliers who remain unconvinced by Israel's existence.

France, more anxious than the others to please the Arabs, at first vetoed a statement supporting the Sadat mission though eventually, under American pressure, the Nine did offer it a guarded and qualified welcome. Then they maintained a 10-month silence (ignoring two appeals from the Egyptian leader for a further declaration of support) broken by a statement of welcome for the Camp David accords in September 1978. When the Egypt-Israel peace treaty was signed in March 1979, the EEC support of President Sadat, or that matter, of the United States and Israel. In fact, they all regard them as disruptive of the peace process—but Lord Carrington obsessively presses on. His meeting with Mr Haiz in Washington did not, according to the reports, persuade the Americans to change their view.

That may be because the progress that has so far been made has owed nothing to Europe. The United States

alone has retained the confidence of both parties to the conflict, and has used that position to encourage and help the compromises and concessions which led to Camp David and peace. Europe's main concern has been to protect its oil supplies. That is a legitimate national interest, and is the search for peace in the area. But in the partisan pursuit of these objectives, the Europeans have disqualified themselves from any role as honest brokers.

That job of conciliation can still only be performed by America and, although difficult problems of implementation await resolution, the Camp David agreements remain the best available option. The process has stalled but Camp David is by no means dead or even moribund. The alternative which the European initiative purports to offer is not only unrealistic but a hindrance to the further burgeoning of the fire and only successful stride towards peace in the Middle East for 30 years.

Europe offers to the Arab reactionists the hope that a settlement on their terms can be imposed on Israel. The PLO is offered recognition without paying the price of accepting Israel and abandoning terrorism. Why should the Arabs face the daunting responsibilities involved in peace negotiations and cooperation in working out a system of autonomy for the West Bank if they believe that, by relying on the Europeans and sinking Camp David they can be assured of an instant Palestinian state?

If the Arabs of the West Bank really want a separate state for themselves (and, given a free choice, that is not certain) the process will have to begin with autonomy. Before long, the Jews in Mandatory Palestine had, over a period of decades, created an institutional structure which afforded them a considerable measure of autonomy and made the transition to statehood a natural one. Camp David gives the Arabs the opportunity to follow the same

course. To deflect the attention of the world from the real obstacle to progress—their own unwillingness to yield to Israel—the Arabs have tried to persuade their friends and customers that responsibility for the continuation of conflict should be pinned on Israel. The searchlight of the media is directed to the plight of the Palestinians, in camps or in the 22 Arab states, unable to return to their homes in Israel. Receptive ears are turned to the protests of the West Bankers against the frustrations of occupation. Responsible journalists file pathos stories, factual in themselves but unbalanced because other relevant facts are ignored.

It is rarely recorded that the sufferings and disabilities have arisen as a result of wars initiated by their own leaders or that, with the sole exception of Egypt, the Arab world still maintains a state of war with Israel. The interested world is not reminded that the redress which is available to some of the victims is rejected by them because that would involve recognition with Israel. Above all, critics of Israel show little awareness, let alone appreciation, of the country's safety necessities in a situation where weakness or excessive concessions under pressure could mean annihilation.

This selective indignation shared by the Soviets, Arabs and the New Left distorts a complex and emotive problem and, by diverting attention from the real source of the conflict, frustrates the search for answers. Objectionable Israeli policies are a consequence of Arab enmity, not its cause. Given time in which to draw the lessons of the Egypt-Israel peace and aided by a period of benign neglect from the rest of the world, some other Arab states may well see the advantages of moving in the same direction.

So far as the EEC is concerned, its members could play an honourable and constructive role were they to encourage the Arabs to sit at the negotiating table and the PLO to lay aside its grenades and guns. Such a policy might not ingratiate them with those who wish the contrary but it is more likely to contribute to peace than a policy of appeasement.

Mr McLennan had appropriate words of praise for "Comrade Brezhnev"—appropriate, that is, by British standards, though given the galloping inflation in this commodity they fell well short of the standard achieved by others.

Mr Geidar Aliev, party secretary of Azerbaijan, contrived to mention Brezhnev 13 times in his speech. Among his bogged phrases, he called the President a "worthy leader", a true follower of the deeds of Lenin, a man whose great attractive force "inspires and mobilizes". Communists and workers. He said all people of good will throughout the world were saying: "Hearty thanks to you, dear Leonid Ilyich, for peace and for your priceless achievement."

And in a particularly purple

passage he declared: "By his mighty deeds for the wellbeing of the Soviet people, in the name of the creative Communist ideal, Leonid Ilyich has won the love of all the nations and the highest authority in our country, universal recognition as a staunch leader of the Communist Party and Soviet state, a first champion of peace on the planet."

Similar sentiments peppered the speeches of almost every delegate for the next two days, who all commented the "exceptionally profound, theoretical and political analysis" in Mr Brezhnev's speech, and whose praise for his accomplishments was invariably interrupted by "prolonged, stormy applause" as the official scribes recorded.

Then suddenly it all stopped. It appears that the torrent was deemed a little too effusive, even for this occasion, and the word went down to cut it out.

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Michael Binyon

MOSCOW DIARY

A show designed for the media

It is all over, and Moscow is breathing a large collective sigh of relief. The 26th Party Congress, over which officials sweated for months drawing up plans and programmes in the minutest detail, has ended after eight interminable days. The delegates have gone home, the flags are coming down, the slogans are being rewritten and life in the capital is returning to normal.

To me and to thousands of others it all seemed just like the Olympics again, only with show on the ground: police everywhere, parading the pavements, standing around the main hotels, blocking streets and stopping as many private cars as they could catch to whip off the number plates on the tightest excuse and thus conveniently reduce traffic congestion. There were last-minute efforts to tidy up the city, lock up any remaining dissidents and brighten up the

shops with a bit of glitter and some fresh consumer goods. Black cars with government number plates roared all round the city carrying important people to important meetings, and then parked in long rows outside the Kremlin while their drivers sat back in their seats, pulled their fur hats down over their faces and snored for the best part of the day.

Tickets for the Bolshoi and for the theatres became almost impossible to obtain, even for ready money and the appropriate letter to the box office, as black bookings were made for the 5,000 delegates in town, not to mention their guides and escorts. Now the Bolshoi troupe can move back to its second home—the plush 6,000-seat glass and stone Palace of Congresses in the heart of the Kremlin—built by Khrushchev especially for these five-yearly jamborees.

Like the Olympics, the Congress was really a show for the media. They were all back in town—friends and colleagues from other papers, camera producers and commentators. And we all got together again in the special Olympic press centre, a rather smart building equipped with

batteries of Telexes and telephones, a good restaurant and, most important, a decent bar with polite, uniformed barmen and unlimited quantities of whisky.

There was also the daily briefing, and an extraordinary sense of *déjà vu* when Mr Vladimir Popov, the suave and accomplished Olympic spokesman, joined others on the platform at the opening session. He now has a job as deputy head of Soviet television, and so was busy taking care of what the Russians call the "electronic media".

Newspaper journalists were briefed by Mr Leonid Zamyatin, the former head of Tass and now a close aide of Mr Brezhnev and official government spokesman. He is an influential figure in the Soviet Union, with combative hard-line views on the functions of the press and a skillful knack of giving opaque answers to questions that go beyond the framework of what the Russians term "constructive journalism". He was not a little miffed that an hour-long interview he granted to the American ABC television company was cut back to three

minutes: the same would never happen here.

But in general the press coverage seems to have satisfied the Russians. They certainly kept the most detailed statistics, and it was much easier to find out everything about other journalists than anything about what the Congress delegates actually said. Altogether, Mr Zamyatin announced on the final day, 1,006 journalists from 60 countries were in Moscow to cover the event, including 230 from radio and television.

There were 10 press conferences, 21 meetings with Soviet and foreign delegates, and 20 interviews arranged with political figures, scientists and cosmonauts. Soviet television broadcast 100 hours of material on the Congress, picked up in part by 87 countries and viewed, Mr Zamyatin boasted, by 2,000m people. Mr Brezhnev's report was printed in 64 languages in a total edition of four million copies.

But though a media event, it was very different from American party conventions or British party conferences. You could not just wander in and button-hole a delegate or two as they were on their way to lunch,

in fact you could not wander in at all, as the whole of the Kremlin was cordoned off and they were ready to anyone not wearing the official Congress lapel badge. And even when the odd delegate made his way down to the press centre, you had to be escorted up to see him in special conference rooms on the upper floors.

One man who did come and talk to us was Mr Gordon McLennan, the secretary of the British Communist Party. A courteous, quiet-spoken Scot, he was rather well received in Moscow—he was the only so-called Eurocommunist to address the Congress and to mention the Russian disagreement on the subject of Afghanistan.

He also gave a long interview on the main evening news bulletin. It was rather distressing that Anglo-Soviet relations are so bad—"stagnating", in Mr Brezhnev's phrase—and that though Britain should at least send out a few officials here to get grade moving again. Last year showed a sharp fall in trade turnover, and Mr McLennan said British exports to the vast Soviet market would do a lot to help our dire economic situation.

No one let him into any



David Blak
Economics Editor

مكتبة الأصل



CHANCE FOR PEACE IN THE GULF

The Islamic nations have been trying to mediate between Iran and Iraq for the past six months, under the leadership of Mr. Habib Chatti, General Secretary of the Islamic Conference. Their latest proposals include a ceasefire to begin next Thursday, followed by a withdrawal of Iraqi troops from Iranian territory a week later. This withdrawal would, under the Islamic plan, take a month to complete, and would be supervised by military observers drawn from member states of the Islamic Conference. The ICO would then establish a committee to adjudicate on matters of territorial dispute between the belligerents, first among these being the question of the Shatt al-Arab waterway, the immediate *casus belli*.

Will these suggestions prove even partially acceptable to both sides? There are some hopeful signs. Iran has always maintained that since Iraq is the aggressor, Iraqi troops must be withdrawn before negotiations can begin. The Islamic proposal meets this point, and indeed echoes ideas put forward recently in Tehran both by President Bani Sadr and by the acting head of the joint Chiefs of Staff.

General Valiollah Fallahi, Mr. Bani Sadr said yesterday that the withdrawal and ceasefire must be simultaneous, rather than sequential, but this need not be an insuperable difficulty. Iraq may also be in a mood to come to terms. The six months of war have proved a drawn out affair, with bursts of bitter fighting alternating with a debilitating war of attrition along an extensive front line. Iraq has made only limited territorial gains, and has had to fight hard to hold on to them. Provided Iran is prepared to acknowledge what he calls "Iraq's rights", President Sadat's Hussein is apparently ready to talk peace, and could in theory withdraw with Iraqi honour reasonably intact. President Hussein can, after all, claim to have dealt a blow against Iran on behalf of the Arab world, and to have denied what many Arabs see as the Ayatollah Khomeini's arrogant desire to spread his gospel of fundamentalist revolution throughout the Middle East.

The main obstacle to a peaceful solution of the conflict is the continuing condition of hardline fundamentalists in Tehran, who retain a powerful hold over Iran's diffuse and often mysterious decision-making processes. The

Islamic proposal offers Tehran the chance of a moral victory, if not a military one. The sensible course would therefore be for Iran to enable President Saddam Hussein to withdraw his troops gracefully, by offering him the assurances he seeks concerning Iranian respect for Iraq's territorial integrity and the impermissibility of force as a means of resolving disagreements.

It is perhaps unfortunate that the Islamic nation should have given the two sides barely a week in which to consider their formula. Equally, the time limit imposed may have the effect of concentrating the minds of leaders on both sides. Timing is indeed all important, since the war may well be about to emerge from its present lull. The arrival of spring and the end of the rainy season will soon bring with them conditions more suitable for fighting, and the tanks which have been bogged down in the winter muds will start to move again. A renewed trial of strength would be to the advantage of Iraq, which has been building up its military supplies from a variety of sources. If this chance for peace is missed it could be some time before another arises.

DENIAL OF THE RIGHT TO REPLY

A toothless watchdog, if ignored, has no recourse but to bark again more loudly. If the individual who provoked the outburst takes no notice, at least others may. The Press Council has no sanction to bring against those it censures but public disapproval, and it can only enlist that to the extent that its own adjudications command respect. On the whole they have commanded respect, and the influence of its rulings upon general ideas of good and bad practice in the press over the past twenty-eight years has been considerable. Papers that fall under its censure often dispute the justice of its findings in their particular case, but they generally acknowledge that the charge is an answer, and seek to turn it aside by appeals to values that the Press Council itself has proclaimed.

Today the council finds it necessary to bark for a second time over two complaints against the *New Statesman*. The magazine gave the council only minimal cooperation in its investigations and failed to print

its findings that the complainants had been unfairly denied the opportunity to reply. Last August the magazine *Now* also refused to reply to the council over a complaint that its editor thought should have been pursued, if at all, through the courts (an option that the complainant had disclaimed). The council rightly decided in both instances that these failures to cooperate should not be allowed to prevent an inquiry and, having been able to satisfy itself that there was substance in the complaints, it censured the magazines.

The *New Statesman's* refusal to publish the adjudication was as serious an error as its refusal to cooperate with the original investigation. The allegations that had been made, against members of the Civil Service Union in one case and a Czech journalist in the other, were grave enough to create a strong case for a right of reply however confident the magazine was that they were true. The process of uncovering truth often involves the printing of errors in good

faith, and a responsible journal should always give complainants the benefit of the doubt.

The judgment whether to print or not stands within the range of editorial discretion. The editor is reported to have said that he could not submit his magazine to the council's jurisdiction. Such terms misrepresent the situation. The council is not a court, nor a body possessing disciplinary sanctions—though its existence helps to disarm illiberal voices from both right and left which would favour such restraints upon the press. However unsatisfactory it may appear, no alternative system has been proposed that could command equally wide respect. No official tyranny compels editors to come before it, only the desire that it should be publicly seen that rivals in controversy have been given a fair hearing. In refusing to acknowledge its role, the *New Statesman* is flouting not the Press Council but the essential principles on which a free press must be conducted.

Another example: a nuclear-weapon-free zone might be created in Europe, not instantly, but by adding one smaller zone to another. A proposal for a Nordic zone (as under Article 33 of the Final Document of UN Special Session on Disarmament) are being actively canvassed. It is possible that such a zone might also eliminate "theatre" missiles from the Soviet Kola Peninsula. Similar proposals are being canvassed in Greece and Yugoslavia. From this point it is possible to envisage some revived variant of the Rapacki Plan, which Poland and both Germans might be, step by step, demilitarized.

ON THEIR HEADS BE IT

Decay of the institution of Parliament is such a favourite theme of national self-reproach that it came as no surprise to learn that the fabric of the building which houses it is crumbling. According to a Commons select committee reporting last year chunks of masonry may fall on the heads of the occupants as they go in and out. To avert this fitting calamity a parliamentary Under-Secretary of State for the Environment, Mr. Geoffrey Finsberg, earmarked £10,000 for the instant "removal of potentially dangerous coping stones and string courses" and a further £105,000 for making sound the stonework above doorways. Seemingly it was not enough. Another rock-fall near the members' entrance this week brought Mr. Finsberg to the Dispatch Box again to report progress on his patching operations.

Much of the Anston stone, a magnesian limestone from Yorkshire which was used for the

façades when the Houses of Parliament were rebuilt after the fire of 1834, was flawed by minute fissures formed during geological time. Their crystalline filling is dissolved rapidly by atmospheric pollutants. Fractures then appear. Repairs have had to be done more or less continuously, with an extensive refacing in the late 1920s using more durable Clapham stone. Even this is now suffering from contact with the magnesium limestone. The decay, partly due to dirt and chemicals deposited from the air, proceeds apace.

It was the view of the select committee that what is needed is a conservation and cleaning job all over at an estimated cost of £5m—more, even correcting for inflation, than when the Commons was first notified of the problem eight years ago. Since the extent of the decay had not been fully established, less accessible parts of the building having been examined only from the pave-

ment with the aid of binoculars, the committee recommended that a thorough investigation be carried out. There is not the slightest chance of prising £5m from the Treasury without one. The Government, careless of the risk of accidental by-elections, is still revolving its reply.

Minister's ought to brace themselves to meet that cost within the lifetime of this Parliament. Barry's and Pugin's great classical pile in gothic dress is more than a fine building and one of the glories of nineteenth-century English architecture. It is the seat of the central political process of the nation and has become the most familiar visual symbol of it. If the present occupants cannot look after the fabric of their own premises properly, how are they to be entrusted with the fabric of the state? The Dean and Chapter across the street do better with their charge, and without the public revenues at their command.

And yet, in the same letter, Mr. Winnick makes it clear that, in such a by-election and without party backing, the unfortunate MP is likely to receive "a derisory vote" and not be elected! Thus, in practice, an MP who dissents from his party line could make no effective Parliamentary protest; he must "stay and put up" or "get out". Of course, this paradox is unacceptable. It provides yet another example, if such were needed, of the manner whereby anti-democratic forces work in our society. An MP is not mandated to follow a party line but is a delegate and as such must be capable of independent thought and action. Accordingly, on occasion he may go against the expressed views of his electorate.

It is only through a clear understanding of this basic principle and through appropriate action by courageous delegates that we can hope to end our party-dominated adversarial system of government, and to create instead a governing body where reason can prevail. Yours faithfully, Wm. GRAHAM-BROWN, Morpheus Park House, Tenterden, Kent.

From Mr. Geoff Holgate
Sir, Candidates in general elections receive votes on a party political basis not, at any rate to any appreciable extent, for their personal qualities.

Would it not be an act of political principle more in accordance with the expressed philosophy of those members of the Council for Social Democracy who have now left the Labour Party if they resigned their seats and thus gave the electorate an opportunity to express their opinions on their actions through the ballot paper in the subsequent by-elections? Yours sincerely, GEOFF HOLGATE, 2 Green Cleft Drive, Clifton, York.

Social Democrat policies

From Mr. Richard Rowntree
Sir, As a long-standing Liberal who has long felt himself to be a Social Democrat, I found much to welcome in your leader of February 28. Its conclusion, however, seemed strangely inadequate in terms of the reality of the electoral challenge facing a Liberal-Social Democrat alliance. Of course electoral reform and a diminution of adversarial politics are fundamental requirements for recovery of the country's political health, but by no stretch of imagination can they be regarded as the main plank on which an alternative government would be elected.

It is perhaps especially important for Liberals to recognize that the best opportunity within our life time to break the sterile monopoly of political power as exercised in the Conservative-Labour confrontation lies in the electoral prospect of the Social Democrats in the Labour heartlands. It is precisely there that the more esoteric policies rightly shared by the Liberals and Social Democrats will count for little against the necessarily overwhelming priorities of employment and the cost of living. How fortunate then that the Liberals and Social Democrats share a firm commitment to the establishment of a workable incomes policy, of a workable prerequisite of any effective programme for increasing employment without higher inflation and wider differentials in living standards.

The shared flight of the Conservative and Labour parties from the formulation of a workable incomes policy represents the worst symptom of the postwar "British disease", because an objective is found to be difficult it is abandoned. An incomes policy can and should be a popular electoral commitment now that the gravity of the present crisis is generally recognized. With this growing national mood of realism, which in all justice is partly due to the

Prime Minister's exhortations as distinct from her policies, people are looking for fairness as the condition for effort and sacrifice.

In looking to bring together trade unionists, employers and management to help resolve the many problems inherent in an incomes policy, the new alliance must avoid the pitfall of laying blame for unemployment just on Conservative and Labour policies or even the explosive oil price increases leading to world recession. For while the new alliance undoubtedly contributed to the problem, we are in truth a guilty generation that for far too long has refused to face the certain knowledge that our technological advances would inevitably require new attitudes and structures to meet the social challenge they present.

What quickens the political pulse with greater hope than for many a long day is the belief that the real courage shown by the Social Democrat leaders, most of whom are placing at risk highly promising political careers as well as making deeply painful breaks in personal and party relationships, will serve as an effective catalyst for the reshaping of our body politic as first advocated by Mr. Grimond and more recently so effectively advanced by Mr. Steel.

Yours faithfully, RICHARD S. ROWNTREE, Kinghorpe, Pickering, North Yorkshire.

From Dr W. Graham Brown

Sir, In his letter concerning the prospects for the Social Democrats, Mr. David Winnick (March 4) uses the familiar Catch 22 paradox: remove decision-taking from party members and to place it with organisations. He recommends that an MP who finds that he can no longer sustain his party's viewpoint should, in all decency, resign from Parliament and submit himself to a by-election.

New thinking in peace movement

From Mr. E. P. Thompson
Sir, Your reasoned argument, "No safety in instability" (leader, March 3), allows, for the first time, that there is merit in the unilateralist case. But it can be faulted on two grounds.

First, while stressing the dangers of Soviet military pressures, you grossly underestimate the dangers in current United States strategies: for example, the contingency plans for "theatre" nuclear warfare in Europe, and the theories of "pre-emptive deterrence" in pursuit of sources of oil and strategic "strategic" minerals. Mrs. Thatcher appeared to be signalling in Washington last week that Britain is a totally unattractive and inert client, no matter what hare-brained strategies Mr. Reagan's advisers pursue.

Second, your argument misrepresents the position of the European Nuclear Disarmament movement, which is now influential in many parts of the continent. This position cannot be reduced to the simplicities of a unilateralist versus multilateralist debate. The objective is a nuclear-weapon-free Europe, and the means include the pressure of political movements and alliances of both persons and parties—pressing continually to effect lateral communication across the East-West divide, and to elicit equivalent responses among the Warsaw powers.

This is a rolling campaign, which can only be executed piecemeal and over time. No one supposes some instant success (on Thursday, February 3, 1982) when, by some miracle, all NATO powers (except the United States) will have disarmed, and all Warsaw powers will not. On the contrary, reciprocity is of the essence of the movement, and, without it, we can be sure that the movement will fail. For example, if European NATO powers, under popular pressure, should reject cruise missiles and Pershing IIs—and if the Soviet Union did not, instantly, halt and then reduce its deployment of SS-20s, we can be sure that Western unilateralist movements would at once lose their popular support.

Another example: a nuclear-weapon-free zone might be created in Europe, not instantly, but by adding one smaller zone to another. A proposal for a Nordic zone (as under Article 33 of the Final Document of UN Special Session on Disarmament) are being actively canvassed. It is possible that such a zone might also eliminate "theatre" missiles from the Soviet Kola Peninsula. Similar proposals are being canvassed in Greece and Yugoslavia. From this point it is possible to envisage some revived variant of the Rapacki Plan, which Poland and both Germans might be, step by step, demilitarized.

The UN and Swapo

From the South West Africa People's Organisation, Chief Representative for Western Europe

Sir, Swapo of Namibia believes that your news story "UN ban strengthens Pretoria bias claim" (March 4) avoids the real issues at the root of the United Nations' argument with South Africa over the implementation of the United Nations plan for elections in Namibia (Resolution 435, 1978). Given the current media fascination with South Africa's ridiculous claims against the United Nations, we wish to put the question of "partiality" into perspective.

To begin with, in terms of Security Council Resolution 435 (1978), South Africa would face the implementation of the United Nations plan for elections in Namibia (Resolution 435, 1978). Given the current media fascination with South Africa's ridiculous claims against the United Nations, we wish to put the question of "partiality" into perspective.

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LETTERS TO THE EDITOR

Civil servants' sense of grievance

From Mrs. J. Taylor

Sir, It is significant that the letters you print today (March 3) condemning the backing by the First Division Association of the Civil Service unions' campaign regarding pay are from retired members.

Conditions in the Civil Service are not what they were—there is greater pressure of work, greater frustration, inevitable comparisons with far more generous payments to civil servants in other public sector. Members of the FDA no longer have the high standard of living they once had and the much-touted benefit of index-linked pensions is allowed for in calculation of salaries and will not exist once inflation is controlled.

We still have the finest Civil Service in the world bar none and the one thing we cannot afford in these increasingly complex times is a lowering of standards. Yet Mrs. Thatcher has introduced none of the promised bright young industrialists into the higher echelons of the Civil Service—the bright ones wouldn't play!

The FDA knows that if quality is to be maintained, there is a limit to which forbearance ceases to be a virtue. Mrs. Thatcher should be reminded that Edmund Burke also said: "Magnanimity in politics is not even the truest wisdom; it is a great empire and little minds go ill together."

Yours faithfully,

J. TAYLOR,

7 Birdham Gardens,

South Croydon,

Surrey.

March 3.

From Mr. D. Bailey

Sir, I am increasingly amazed by your letters column on the present campaign. The letter from Mr. Hetherington (March 3) is surely the ultimate in self-indulgence.

Mr. Hetherington writes of the "appalling disgrace" and of "mutiny" in the Civil Service as a "pure accident" designed to "industrial action". He no doubt privately believes that those who strike should therefore be shot!

The general tone of letters from retired civil servants is one of longing for the days past of flagging loyalty and service. I suggest in respect that in reality the loyalty which they knew was paid for. In the 1920s and 1930s and into the post-war period civil servants were paid at a rate above the national average wage. The lower ranks were then in the privileged position of holding a "£5 per week job". We now have a situation in which two thirds of civil servants earn less than the average wage, and both the present government and its predecessor have accelerated the decline. It is conveniently pointed out that civil servants have had substantial pay increases in the past two years. What is not explained is why this is so. It means that an exercise based on fair comparisons, which incidentally means that our pay is increased by reference to the average increase which the private sector have already enjoyed for 12 months (note, not the best), has clearly demonstrated that var-

ious government incomes policies, social contracts, etc., have only applied to the public sector. If that were not the case the fair comparisons exercise would have shown no increase due.

None of your correspondents has suggested a better way of settling Civil Service pay than by comparability. I might say that many of us in the Civil Service unions believe that the system is inadequate since it clearly benefits and has benefited the higher grades, hence the present claim for 15 per cent with a £10 per week minimum underpinning.

If it is seriously being suggested that civil servants should be expected, in that capacity, and out of loyalty and dedication to accept annually the amount the government of the day deems fit to pay, then we really do live in different worlds.

It is our responsibility as Civil Service trade unionists to defend our members against unfair treatment and the arbitrary breaking of agreements. Such treatment does not earn loyalty, and it becomes retired members of the First Division Association the worse for the popular image of the relatively overpaid, bowler-hatted and pin-striped civil servant was substantially correct, to expect the modern civil servant to be anything but outraged at the treatment we are receiving. It is quite clear to us all that if this government or any other can tear up our pay agreement and get away with it, then no other agreement is worth the paper it is written on.

That is why we are striking. Yours faithfully, D. BAILEY, 19 Cecil Road, Leicester, March 4.

From Mr. J. C. P. Riddy

Sir, I wonder if I am alone in noting with rapidly increasing surprise and indignation the flood of special pleading entered in your columns by civil servants and their agents on the theme of their 15 per cent pay claim and the machinery by which their pay is increased year by year?

I would find this articulate public relations exercise a little more palatable if a token comment had escaped these well-educated lips to acknowledge the fact that circumstances have changed very much for the worse since the systems they wish to preserve were invented; and that in the eyes of this humble mortal—and many others to whom I speak—it is as much civil servants as politicians who must carry the responsibility for the decayed situation in which our economy and our society find themselves.

Until the economy is in better shape civil servants do not deserve a rise of this greedy dimension, especially when set against the general weatherproofing protecting civil servants' conditions of service and pensions.

Yours faithfully, J. C. P. RIDDY, "Garth", Fortingall, Aberfeldy, March 4.

ship of around 250 the majority of whom are black and about 60 per cent of whom are unemployed, ran a special disco to help the families who were bereaved and it raised £163 the week after the fire.

This gesture, small compared with the enormity of the loss suffered by the families concerned, shows another aspect of the life of the young black people of Lewisham. This good news is worthy of publicity.

Yours faithfully, DAVID GARLICK, Lewisham Vicarage, 48 Lewisham Park, SE13, March 4.

Things have been very much on the move, since these lines were set down in a spirit of sympathy. The firm attitude, which Britain has now found it necessary to take, in blocking the admission of Faroese fishing vessels to the Greenland waters and the North Sea.

The vulnerable island community in the North Atlantic is brought to face nothing less than a catastrophe, utterly dependent as it is on fisheries, including those in distant waters, as the minimum need of the islands cannot be covered by the resources of the home waters alone.

Yours truly, STEN BALLE, Dr. Dahlstrøm 11, 3800 Tórshavn, The Faroe Islands, February 21.

This may be true currently but agricultural prices do fluctuate and it is as well to remember that on the whole they have lain well below EEC prices so that excessive (to current demand) supplies have been produced in the community.

Lastly, no one would deny that the poor should be helped and that some agriculturalists may fall into this category. However, shouldn't policy help only the unfortunate—or are all farmers unfortunate? What critics of the CAP would argue is that, of all the possible policies one could think of to provide income maintenance, it would be just about the most inefficient of all.

Yours faithfully, JOHN BEATH, Department of Economics, University of Bristol, 41 Bedford Square, Bristol, March 3.

Conundra

From Mr. C. H. Jaques

Sir, The letter from Mr. Wilson Longden (March 4) reminds me that the late Sir John Maserman once reported that a would-be entrant for Worcester College had, in an essay, described a certain book as "one of the essential *vide meca* for anyone studying this subject".

Yours faithfully, C. H. JACQUES, 2 Longston Close, Seaford, East Sussex, March 4.

substituted for the goods themselves?

And while on the subject of fire risk, I have found few more alarming sights than, at dead of night on some long oceanic journey, the sight of a hundred or two cigarette tips glowing through the smoky haze of a dimly-lit cabin. Many such passengers must be on the verge of falling asleep. Why there are not more cabin fires on board jetliners is a source of surprise to me.

Yours sincerely, GERALD HENDRIE, 19 Madingley Road, Cambridge.

What distinguishes the new thinking in European peace movements is this. First, we are pressing our own governments to move out from under the superpower deadlock and engage in direct initiatives (initial measures of disarmament) and negotiations. The position now is absurd. Even for negotiations to start on European "theatre" weapons is a matter which could scarcely concern European powers; we must wait upon the whims of the US administration—an administration, after seven years of negotiation, has torn Salt II up. And, even then, there will be no European seat at the table. If we wish to get anything done, then our statesmen must go to Warsaw, Budapest and Moscow, not to Washington.

Second, we see the only possible hope of avoiding a terminal nuclear collision in a strategy which begins to break down the hard edges of both blocks, and which begins to mend the issues of Eastern and Western Europe once more. We wish to bring the peace movements of the West and the movements making for democracy and civil rights in the East into a common alliance—or, at least, a mutual understanding. In our view, the old Soviet bloc and today is being propped up by Western missiles; it is the menace of "the West" which strengthens militarism in the East, which legitimizes the old autonomies, and which prevents difficult social transitions from being made—or which, as in Poland today, limits the space for such transitions. Hence the END appeal insisted, from the first, that more open communication and exchange between persons and movements in East and West is a necessary condition of our work.

No one supposes that any of this could be easy. Nor that it could be without risk. It is a barely possible strategy and there will be risk all the way. But those who have taken a steady view of the risks inherent in our present predicament—and who have weighed the sombre arguments of Sir Martin Reile's recent booklet—consider that it is the only risk which still carries human hope; and that it is worth throwing all that is affirmative in European culture into that effort. The effort is not one of "unilateralism" in the sense that you suppose—one nation, speaking out, to the six-figure "multilateral unilateralism"—a rolling campaign of reciprocal initiatives by one nation and then another, accompanied by popular movements, personal exchanges, and direct diplomacy. And, to think that END and CND (which have been actively associated with us from our initial appeal) share this common perspective. Yours, etc.

F. P. THOMPSON, European Nuclear Disarmament, 6 Endsleigh Street, WC1.

a free and fair election in Namibia. Little attention has been drawn to the fact that South Africa pours vast sums of money into the coffers of her client party, to the six-figure sums that are spent on the running of each of this party's PR offices in London, Paris, Bonn and Washington, and that the outlay on media coverage and promotion trips abroad for its members is enormous. The backing Swapo gets from the United Nations (which would cease with an election campaign) looks like petty cash beside Pretoria's expenditure on its political campaign in Namibia and elsewhere, which will be forthcoming for South Africa's client party during any elections there.

Finally, it ought not to be forgotten that South Africa is clearly in illegal occupation of Namibia. What the South African government to call into question the ability of the United Nations, as Namibia's legitimate authority, to fairly monitor and control an election? Yours, SHAPUA KATKUNGA, South West Africa People's Organisation, 185 North Gower Street, NW1, March 4.

and a printing machine. To circumscribe his rights is to diminish the citizen's. Alternatively, to discriminate between the journalist and the citizen may each lawfully do and say is not only intolerable but presents interesting problems of definition.

For many complaints to the Press Council concern matters of taste (our perceptions of which change constantly); should a journalist forfeit rights enjoyed by fellow citizens merely for offending good taste? Yours sincerely, DAVID FLYNN, The Star, York Street, Sheffield, March 3.

term be more damaging in international terms than the minor economy in government expenditure warrants. At a time when British museums are promoting exchanges and technical assistance to museums overseas it is incongruous that Government actions at international level appear to be in conflict.

We hope it is not too late for the Government to consult its representatives in this field and reconsider its decision. Yours faithfully, GEOFFREY LEWIS, The Museums Association, 31 Bloomsbury Way, WC1, March 3.

Heritage in danger

From the President of the Museums Association

Sir, The Museums Association would add its protest to those already expressed (letters February 17, 26 and March 3) at HM Government's decision to withdraw from the International Centre for the Study and Restoration of Cultural Property (ICCROM). British participation in the work of the centre has been of great importance and has added significantly to our prestige in the field of the restoration of cultural property.

The cancellation of our contribution to the centre will in the long

term be more damaging in international terms than the minor economy in government expenditure warrants. At a time when British museums are promoting exchanges and technical assistance to museums overseas it is incongruous that Government actions at international level appear to be in conflict.

We hope it is not too late for the Government to consult its representatives in this field and reconsider its decision. Yours faithfully, GEOFFREY LEWIS, The Museums Association, 31 Bloomsbury Way, WC1, March 3.

Airliner fire hazards

From Professor Gerald Hendrie

Sir, Two matters of concern are raised in connection with alcohol, fire, and airline disasters (Mrs. Hall's letter, February 26).

It is surely absurd in a resource and energy conscious world, to transport thousands of bottles of whisky to the far side of the world in order to fly them back again duty-free with the attendant fire risk which, it seems, is causing legitimate concern to pilots. If the duty-free anomaly is to continue, surely vouchers could be

substituted for the goods themselves?

And while on the subject of fire risk, I have found few more alarming sights than, at dead of night on some long oceanic journey, the sight of a hundred or two cigarette tips glowing through the smoky haze of a dimly-lit cabin. Many such passengers must be on the verge of falling asleep. Why there are not more cabin fires on board jetliners is a source of surprise to me.

Yours sincerely, GERALD HENDRIE, 19 Madingley Road, Cambridge

THE TIMES

BUSINESS NEWS

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Flights
of
ingenuity,
page 17

Stock markets
FT Ind 496.2 down 3.5
FT Gilt 68.61 down 0.05

Sterling
\$2.2040 up 75 points
DM 2.1360 up 5 points

Dollar
Index 100.7 up 0.1
Gold \$463.50 down 51

Money
3 mth sterling 12 1/2
3 mth Euro \$ 16 1/2
6 mth Euro \$ 16 1/2

CBI calls for £6,000m state spending to boost growth and jobs

By Patricia Tisdall
Management Correspondent

An expansion of government spending by £1,500m a year for each of the next four years is being urged by the Confederation of British Industry as part of a strategy for economic recovery.

By 1985 the programme proposed in a staff discussion paper published by the CBI yesterday would cost an additional £6,000m but could cut unemployment and restore industrial growth.

The £2-page document containing 50 separate recommendations is the creation of Sir Terence Beckett, the former chairman of Ford who took over as the CBI's director-general last summer.

"If we want to get this country moving we have to start giving industry some priority in the scheme of things," he said yesterday.

"If we let things go the way they are going, unemployment would continue to grow right through to 1985."

With unchanged policies, output would grow by less than 1 per cent a year up to 1985, unemployment would rise to 11.5 million, inflation would fall only slightly after 1981 and company profitability remain weak.

If the CBI plan were implemented, the economy would expand by 3 per cent a year, unemployment would drop, inflation would be tamed and profits would improve.

"Our approach is based on an improvement in industry's performance together with increased funds from the Government partly from increased North Sea oil revenues and partly from savings. There is a very definite real need for industry to help itself and for the Government to recognize the plight the economy finds itself in," Sir Terence added.

CBI leaders denied that there was widespread dissatisfaction with the Government's handling of the economy. "Our dissatisfaction is with the community at large," Sir Raymond Penneck, CBI president, said. "We're not seeking to bash any particular sector. We're all in this mess together and we all have certain things to do to put it right."

The employers stress that their proposals would not add to inflation. "We have taken great care that there will be no inflationary element in our programme," Sir Raymond said.

The CBI is also at pains to point out that its proposals are quite different from the £6,000m expansion asked for in the 1981 Trade Union Congress Resolution which was all planned for in the coming financial year.

The CBI document has been sent to the Prime Minister and to Cabinet ministers, including Sir Geoffrey Howe, the Chancellor. The employers say they have not so far had a reaction response but will appear in next Tuesday's Budget.

Top of a list of "firm" proposals and the biggest single item of expenditure on the CBI's list is the abolition of national insurance surcharge. In its pre-budget submissions the CBI is asking for an immediate 2 per cent cut in interest



Sir Raymond Penneck: action needed to put things right.

rates. The document calls for the abolition of National Insurance surcharge by 1985.

It suggests that a total of £1,500m a year should go to major capital investment programmes including new roads, new sewerage systems and ventures like railway electrification and gas gathering pipelines and nuclear development.

Among suggestions which are likely to cause controversy among some CBI members is that of selecting special industry sectors for state aid.

The document suggests that £750m could go to "sunrise industries" with the best growth and profitability prospects. Examples of industries cited by Sir Terence as likely candidates for government support include genetic engineering, biotechnology, telematics, office equipment, aerospace and oil exploration.

"We have not been very successful at picking winners in the past, but other countries do it and there is no reason why we cannot in the future," he said. "The alternative would be to allow laissez-faire policies to take their course and cut interest rates, business costs and taxes. But the risk then is that the resources would be spent on consumption and imports and it would not lead to the investment we need."

Endorsed by the CBI's policy making council, such a move would represent an important shift in CBI thinking and would also involve a change of emphasis by the Government. The strategy document points out that the first positive response will be at the level of the imagination and foresight in failing to take advantage of the opportunity presented by North Sea revenues.

CBI members are urged to decide urgently whether they wish the confederation and the Government to adopt a positive industrial policy along these lines.

"We must have the will to win, because if we do not we shall have increasing dissatisfaction stemming from increasing unemployment and continued poor performance almost indefinitely into the future," Sir Terence says.

Both decisions were in line with advice from the Office of Fair Trading. However, the referral of the hovercraft merger still gave rise to some surprise, and was immediately attacked by British Rail.

Mr Michael Bosworth, deputy chairman, described it as both a surprise and disappointment. "The poor financial results of the two companies are well known, and with the closure of

Barclays reveal £300m aid to industry

By Ronald Pullen

A firm indication of the likely scale of financial support clearing a path for an extension to the recession-hit British manufacturing industry came yesterday from Barclays.

The bank estimates that over the past year it has lent some £250-£300m which it would not have done otherwise.

Mr Frank Dolling, a vice-chairman of Barclays, said that it was part of a conscious policy of helping businesses in trouble.

It has become clear over the last few months that the clearers have been playing a crucial

"industrial lifeline" role to help companies through their financial difficulties.

In some cases, such as the assistance being given to the private steel sector, the help has become public knowledge but there have been dozens more schemes working behind the scenes. The clearers have also become noticeably more reluctant to push companies into the hands of the receiver.

Mrs Thatcher has already reminded the clearers that the Government expected "those who gain from high interest rates will use their fortuitously high profits to show confidence in basically sound established companies".

Mr Gordon Richardson, Governor of the Bank of England, also conceded in January this year that the Bank had been active in "bringing the interested parties together".

But the Bank has gone to great lengths to refuse suggestions that it has twisted the banks' arms and the Governor stressed in his January speech that it was a matter for the banks to judge how they can "properly continue to lend".

The clearers themselves see this role as their strongest argument for escaping the rumoured windfall profits tax in next week's Budget.

Just how wary the banks have become about this sort

of lending has been showing up in the bad debt provisions they have been announcing recently in the full-year results.

Barclays increased its charge for bad and doubtful debts in the profit and loss account from 7 to 10 pence for last year and while this also includes international lending, the increase in the United Kingdom operations was almost sevenfold to £69.6m.

The big jump was the bank's specific provisions from £25.5m to £102.8m which reflect loans the bank's management judge to be specially at risk.

Lloyds and National Westminster have already announced

big increases in their bad debt provisions.

Full year profits from Barclays for 1980 slipped fractionally from £529.4m to £523.5m although shareholders are to get a 20 per cent increase in their dividends.

As with the other clearers the domestic banking side has been hit in the second half by lower interest rates, the switch away from cheaper current account money, and a 31 per cent rise in staff costs.

In contrast to the rest of the country Barclays said yesterday that staff numbers rose 7 per cent last year.

Financial Editor, page 17

Ransome to close engineering factory

Ransome Hoffmann Pollard, the precision engineering group, is to run down its Northampton factory with the loss of 340 jobs. The company's shares fell 4p to 79 1/2p.

The Northampton factory's main product is car water pump bearings. It has been on short-time working for more than six months as export sales have dwindled. Demand is now too low to keep the factory open. The strong pound is blamed for making the bearings uncompetitive in Europe.

The company is to transfer the Northampton factory's production to one of its other factories over several months. Ransome Hoffmann Pollard reported 1979-80 profits of £11m but Mr David Ewart, the chairman, said that poor economic conditions would drop, with an effect on this year's first half profits.

Promoting Scotland

A new organization called Locate in Scotland will promote Scotland abroad, it was announced by Mr Robin Duthie, chairman of the Scottish Development Agency. It will be based in Glasgow and will have a staff of 20 drawn from the SDA and the Scottish Economic Planning Department.

Lucas action group

Staff and manual unions representing 17,000 Lucas Electrical employees have formed an action committee to fight company plans to close more factories and axe a reported 3,000 jobs.

£27m Korean order

Northern Telecom's subsidiary, Northern Telecom Korea, will sell £27m of telecommunications equipment to the Republic of Korea.

Mutual funds plan

The United States is considering imposing reserve requirements on money market mutual funds, which now have assets under management of almost \$100,000m (about £45,450m) as a means of assisting ailing savings and loan banks.

Microchip deal

Motorola, the United States electronics company, and the Dutch Philips group together with Signetronics, a California-based subsidiary, have signed a five-year agreement to collaborate on the development and production of a family of microprocessors.

Thai bank credit

The Export Credits Guarantee Department has backed a \$3m (£1.4m) line of credit for Thai Farmers Bank to finance the export of British capital goods and services to Thailand.

Nissan site denial

Mr Nicholas Edwards, Secretary of State for Wales, has denied reports that Wales had already been selected as the site for a £200m car plant creating 5,000 jobs by Nissan of Japan.

Wall Street lower

The Dow Jones industrial average closed 5.82 points down to 964.62. The S&P 500 was 1.2279. The £ was 0.556016.

Little chance of full monetary base system despite strong support of Prime Minister

By Frances Williams

There now seems little chance that a full monetary base system of controlling the money supply will be introduced during the lifetime of the present Government.

Despite the strong support of the Prime Minister and Professor Alan Walters, her personal economic adviser, the advocates of a swift move to a monetary base system have failed to carry the day in the teeth of determined opposition from the Bank of England.

A monetary base system would involve trying to control the money supply by regulating the quantity of cash held by the banking system with the Bank of England, plus notes and coin in circulation, rather than by manipulating interest rates as at present.

The Bank of England says there is as yet no evidence that a monetary base system would result in tighter control over the money supply and, by increasing the volatility of interest rates, make monetary management more difficult.

Instead Sir Geoffrey Howe, Chancellor of the Exchequer, will announce in his Budget

statement on Tuesday a number of changes to the present system which will be "consistent" with a future move to control of the monetary base.

But he is not expected to announce a timetable for such a move. This effectively rules out the introduction of full monetary base control in the present Parliament.

The changes to be announced were foreshadowed in the Chancellor's mini-Budget statement on November 24 last year. They will include a target date by which the rule obliging banks to hold a fixed proportion of their liabilities in reserve assets with the Bank of England will be abandoned.

It will be replaced by a new measure of money M2 based on banks' retail deposits; and an indication of when Minimum Lending Rate will be abolished.

Sir Geoffrey had hoped to introduce these changes immediately after the Budget, but its early timing at the beginning of March turned out to leave insufficient time for officials to work out all the necessary details.



Professor Walters: argued against sterling M3.

The Chancellor will present his monetary objectives for the coming year as "maintaining the broad thrust of the medium term financial strategy". But the objectives will be targeted on a range of monetary indicators, not just on sterling M3 as previously.

Under the medium term strategy, published at the time

of the 1980 Budget, sterling M3 (notes and coin in circulation plus banks' sterling deposits of United Kingdom residents) was projected to decline steadily from 7 to between 7 and 11 per cent in 1980-81 to between 4 and 8 per cent in 1983-84.

By contrast, narrower measures of money, such as M1 and the monetary base, have risen relatively slowly. The difficulty of controlling M3 has led some monetarist economists, including Professor Walters, to argue that it is not a suitable short-run target of monetary control, though it is still generally favoured as the best measure of money supply over the medium term.

The Chancellor may announce on Tuesday that the authorities will in future pay heed to the behaviour of a narrow measure of money, such as M1, as well as M3 when deciding short-run interest rate and other monetary control policies.

N Sea output revised downwards by 9pc

By Nicholas Hirst

Energy Correspondent

Estimates of N Sea output over the next few years continue to fall. Mr David Howell, the Secretary of State for Energy, answering a parliamentary question yesterday, gave a revised estimate of production to 1984 nearly nine per cent below figures of last July.

Production in the current year is expected to be between 80 to 95 million tonnes, which compares to actual production of 80.5 million tonnes during 1980 and an estimate of 85 to 105 million tonnes made in the Department of Energy's publication "Development of the oil and gas resources of the United Kingdom, 1980", known as the "Brown Book".

Output during each of the years to 1984 is similarly cut. Production in 1982 is expected to be 85 million tonnes to 110 million tonnes, compared to 90 to 120 million tonnes in 1981.

In 1983 it is now expected to be 85 million to 115 million tonnes against 95 to 130 million tonnes, and in 1984 90 to 125 million tonnes compared to the earlier figure of 95 to 135 million tonnes.

The figures take no account of any depletion measures which may be ordered by the Secretary of State for Energy. Last year the Government announced that it would pursue a flexible depletion policy, aimed at preserving self-sufficiency of oil usage for as long as possible.

As a result of a 14.7 per cent fall in total petroleum use last year, the United Kingdom came very close to self-sufficiency in oil, a position which is likely to be achieved this year.

An end to the recession should bring some increase in demand, but as long as output remains at the low end of estimates, it is unlikely that the Government will be forced to use its powers to cut back production from fields now producing.

Only towards the end of the period is any significant hump in production likely to occur, and then unless it is at the top end of estimates, output may not greatly exceed consumption.

So far, the only specific decision made on depletion by the Government is to delay the start-up of the British National Oil Corporation's Clyde field by two years. The effects of this decision will not show up until after 1985.

Accounting draft: An exposure draft on accounting treatment for petroleum revenue tax has been issued by the Accounting Standards Committee. The intention of the draft is to increase disclosure and harmonize treatment of the allowances and safeguards built into the Oil Taxation Act 1975.

pleased that the hovercraft merger had been referred to the Commission.

Sealink is one of the British Rail businesses which have been earmarked for demutualization when the Transport Bill becomes law in the summer. Mr Biffen said yesterday that the Government's firm intention that a controlling interest in Sealink should be sold to the private sector.

"The decision to make the reference to the Monopolies Commission does not prejudice the question of whether a

UK current account in surplus by £2,700m

By David Blake

Economics Editor

Britain had a £2,700m surplus on its current account last year with the current payments position in surplus by £1,900m in the fourth quarter alone.

The 1980 surplus was almost exactly equal to the deficit on the current account which the Treasury predicted at the time of the Budget last March.

The surprise surplus on the current account was matched by huge capital outflows, particularly in the final quarter of the year when an identified total of £1,221m flowed out of the country.

Private investment overseas is estimated to have been £1,788m in the final quarter of the year, and British banks are thought to have lent about £900m in sterling to overseas customers.

Government abolition of exchange controls in 1979 was designed to encourage a capital outflow from the United Kingdom. One effect of this is to ease pressure for sterling to rise at a time when the current account is in surplus.

Britain's surplus in 1980 contrasts with a £1,600m deficit in 1979. The change is entirely explained by big improvements in our visible trade, as the amount received for exports rose and the level of imports fell.

Trade in invisibles recorded

a surplus of £600m, compared with £300m in the third quarter. In 1980 as a whole, the surplus on invisibles was £1,900m.

Trade in invisibles includes earnings on services such as the City and tourism and the transactions of the Government, which are dominated by payments to be spread to between the European Economic Community.

There was a £1,181m surplus on the transactions of the private sector and public corporations in the fourth quarter. British oil companies earned less from the overseas activities than in previous quarters, while foreign companies operating in the United Kingdom earned more. The overall account on interest, profits and dividends was in deficit for 1980 as a whole, a sharp worsening from 1979.

The earnings of British companies overseas in sterling terms were greatly influenced by the rise in the value of the pound, which went up from an effective rate of 0.872 at the start of 1980 to 1.011 at the end of the year. The Bank of England's index, which sets 1975 as 100, was about £1,000m of portfolio investments overseas by United Kingdom residents in the fourth quarter, bringing the total for the year to about £2,800m. There were some offsetting flows into Britain, though not on such a large scale as in 1979.

Monopolies referral for ferry and hovercraft mergers

By Peter Wilson-Smith

The proposed takeover of Sealink UK, British Rail's cross-Channel ferry business, by European Ferries, its main competitor, has been referred to the Monopolies Commission.

The decision, which had been widely expected, was announced yesterday by Mr John Biffen, Secretary of State for Trade.

Mr Biffen has also referred to the commission the proposed merger between the

Swedish-owned Hoverlloyd and British Rail hovercraft.

Both decisions were in line with advice from the Office of Fair Trading. However, the referral of the hovercraft merger still gave rise to some surprise, and was immediately attacked by British Rail.

Mr Michael Bosworth, deputy chairman, described it as both a surprise and disappointment. "The poor financial results of the two companies are well known, and with the closure of

both operations a real possibility of a surprising merger, which is the only sensible solution for the future of hovercraft services on the Channel, should be referred to the Commission."

In contrast European Ferries, which is headed by Mr Keith Wickenden the right-wing Conservative MP, and which announced its proposed bid for Sealink last December after it became apparent that a merger of the hovercraft companies was being discussed, was

pleased that the hovercraft merger had been referred to the Commission.

Sealink is one of the British Rail businesses which have been earmarked for demutualization when the Transport Bill becomes law in the summer. Mr Biffen said yesterday that the Government's firm intention that a controlling interest in Sealink should be sold to the private sector.

"The decision to make the reference to the Monopolies Commission does not prejudice the question of whether a

merger will be against the public interest."

European Ferries has yet to make a formal offer, but a price on Sealink, but it allowed a merger would give the combined group an overall market share of about 60 per cent.

Over the past year, fierce rate-cutting and a drop in freight traffic have sharply reduced the profitability of the Cross-Channel operators and Sealink is understood to have made losses.

Chrysler cuts back to set up \$300m fund

From Frank Vogl

Washington, March 5

The ailing Chrysler Corporation is launching yet another cost-cutting effort in an attempt to develop a \$300m (£136.5m) cash reserve fund. The government's Chrysler Loan Guaranty Board has urged such a fund to protect the company against a sudden fall in new car demand.

The company's desperate plight could be eased for at least a short period by government action to restrict car imports from Japan, and Chrysler is lobbying hard for this. But there appears to be a deep split within President Reagan's cabinet on this issue and this source of aid for Chrysler appears in doubt.

Latest reports suggest that Mr Alexander Haig, the Secretary of State, and Mr Donald Regan, Secretary of the Treasury, oppose car protectionism.

But Mr Drew Lewis, Secretary of Transportation, and Malcolm Baldrige, Secretary of Commerce, as well as Mr Ray Donovan, Secretary of Labour, all support restrictions.

Mr Lee Iacocca, Chrysler chairman, told *The Wall Street Journal* that to raise some of the \$300m the company might sell its two aircraft, some land and unused buildings and raise perhaps \$50m through tighter controls on inventories and receivables.

The company went to great lengths to strengthen its financial position recently to secure

government approval of \$400m loan guarantees, and finding the full \$300m for a cash reserve now might prove impossible.

It seems unlikely that Chrysler's employees, dealers and bankers, are going to be willing to make still more concessions.

The extent of the recent concessions is outlined in a letter to shareholders from Mr Iacocca. This points out that the United Auto Workers Union agreed to income reductions totalling \$622m for the period to September 1982 and that a further cut of \$161m had been made in staff costs.

In addition, Chrysler's major suppliers provided some \$72m of concessions, while lenders agreed to convert \$343m of debt into Chrysler preferred shares and will convert a further \$343m in the second quarter of this year.

The need for an emergency reserve fund to cushion the company against sharp falls in sales is underlined by developments at Chrysler in the final quarter of last year. In his letter to shareholders, the company's chairman noted that Chrysler was profitable in October and looked like making a fourth quarter profit.

"But in November and December a series of unexpected events suddenly devastated the United States market," Mr Iacocca said. He pointed to record high interest rates, double-digit inflation and falls in consumer confidence.

PRICE CHANGES

Rises

Broken Hill	10pt to 67 1/2p
Couch	10pt to 163 1/2p
Hammond & New	10pt to 150 1/2p
Hammond 'A'	5p to 620p
Heath C.E.	5p to 228 1/2p

Falls

Bibby J	10pt to 27 1/2p
De La Rue	20pt to 640p
Gill & Duffus	8p to 168 1/2p
Hobbs & Shang	7p to 178 1/2p
Kierulff	7p to 52 1/2p

THE POUND

Bank	Bank	Bank	Bank
buys	sells	buys	sells
Australia \$	1.96	Norway Kr	12.41
Austria Sch	34.90	Portugal Esc	136.00
Belgium Fr	81.25	South Africa Ra	3.05
Canada C	2.72	Spain Pta	164.50
Denmark Kr	16.32	Sweden Kr	10.62
Finland Mk	9.45	Switzerland Fr	4.43
France Fr	11.38	USA \$	2.25
Germany DM	116.00	Yugoslavia Dn	82.50
Greece Dr	12.15		
Hongkong \$	1.32		
Ireland Pd	2348.00		
Italy Lit	482.00		
Netherlands Gld	5.36		

Norway seeking to use its £5,000m a year oil revenue

New Vikings are out to share their spoils

Plans are being drawn up for a new Viking invasion of Britain. But this time it will be the hand of friendship and cooperation which the new breed of Norwegian invaders will extend to recession-hit industry in Britain.

They will be trying to capitalize on the historical trading links which have brought the two nations even closer together since the discovery and development of the oil riches beneath the North Sea.</

BY THE FINANCIAL EDITOR

Barclays slows overseas

Full-year figures from the clearing banks are springing fewer surprises on the analysts than at the interim stage when sharply higher bad debt provisions and the changing deposit mix away from cheaper current account money upset the rosier forecasts.

Given its increased exposure to British manufacturing industry Midland could still upset the apple cart but for the time being Barclays, the third of the clearers to report, as turned in results mid-way between Lloyds and Nat West.

After the better than expected first-half gain of 13 per cent, pretax profits slipped 4 per cent to £244.4m in the second-half against 4 per cent at Lloyds and 18 per cent at Nat West to leave full-year profits slightly down at £523.5m.

Upsetting calculations has been the dull performance of Barclays Bank International particularly when compared with the more buoyant overseas contributions at Nat West and Lloyds. Up by a quarter in the first six months, BBI's pretax profits in the second half slipped marginally to leave the full year up from £137.7m to £159.5m.

With the South African subsidiary counting for some £9m of this £22m gain, it seems clear that the group's expanding United States operations have had a lacklustre time although adverse exchange rates depressed profits.

Otherwise the domestic side has been hit by the same factors as at the other clearers: lower interest margins, sharply higher specific provisions and the rise in interest-bearing deposits contributing to an 1 per cent drop to £290.5m in the parent bank's pre-interest contribution. Indeed, Barclays seems to be taking a more nervous stance towards bad debts with the overall charge to the profit and loss account rising from £55m to £130.3m concentrated mainly in specific provisions in the parent bank, raising important questions for shareholders and depositors that their money could be being used to fund increasingly risky lending to United Kingdom industry.

Historical profits for the clearers are inevitably on the way down but if inflation bates the monetary working capital adjustments could well result in higher current profits this year. At the moment Barclays dividend, where the 20 per cent increase on the enlarged capital is par for the course, is covered nearly three times by CCA profits and the free capital ratio of 4 leaves scope for balance sheet expansion, although the 61 per cent yield at 406p effects its premium rating in the sector.

The full balance of payments figures for 1980 put the net outflow on capital account at £1,221m, compared with an inflow of £82m (before a positive balancing item of £2,358m) in 1979. A feature of this turnaround was the increase in United Kingdom portfolio investment overseas from £888m to £2,776m.

Although a good part of this occurred in the second half of the year, it must be assumed that there must still be plenty of money that will cut and run in the event of a substantial United Kingdom interest rate reduction. While that map have a direct contractionary impact on the money supply, it is unlikely to make life any easier for the monetary authorities or investors at the longer end of the gilt-edged market.

Davy Corp

Potential remains 'excellent'

To read Davy Corporation's interim statement one would never guess that it is under assault from the United States Enserch Corp, the bid having been referred to the Monopolies Commission earlier this week. There is no mention of either fact.

Profits, though, are much better than expected and are up a third so far to just over £6m on slightly reduced turnover.

The group's potential, says Davy looking over its shoulder perhaps, remains 'excellent', and the balance sheet remains strong.

A point of course is that all looks defensive—and reasonably so—but it is worth remembering that in normal circumstances plant contractors like Davy, who are by their nature involved in long-term work, would be anxious to point out that interim figures are often misleading and

should not necessarily be taken as an indication of the outcome for the year. However, despite the recession, Davy has indicated better profits and the interim dividend is held. All of which—along with the possibility that the Monopolies Commission might allow an Enserch bid—helped the shares up by 4p to 152p.

Euro Ferries Sealink

Nothing ventured...

Much scepticism greeted last December's announcement from European Ferries that it wanted to bid for Sealink.

It is no surprise then that the proposal has been referred to the Monopolies Commission given the market muscle a merger would create but European Ferries can be more than satisfied the proposed merger of



Mr John Biffen, Secretary of State for Trade: his third important Monopolies reference.

the two ailing hovercraft companies, Hoverlloyd and British Rail's Seaspeed has also been referred.

European Ferries, whose profits from shipping probably more than halved last year from 1979's to £16.6m, would obviously like to buy Sealink to form a potentially highly profitable business with an almost unassailable market position.

But failing this the last thing European Ferries wants is the two hovercraft companies put together in a revamped form.

It is now awkward for the Monopolies Commission or the Government to justify the hovercraft merger but then say no to European Ferries. There is also thought to be some sympathy in the Government with the idea of allowing Mr Wickenden, who is after all a Tory MP and fervent free-market, to take over Sealink, especially as such a deal would be likely to raise more than a share price.

Either way Mr John Biffen, the Trade Secretary, may have a difficult choice with the outcome of his third important reference to the Commission recently.

The Commons' Treasury and Civil Service Committee (much helped by its band of academic advisers) has accomplished a major feat in producing its weighty dossier on monetary policy in the United Kingdom. Nor is the report any the less important for the fact that it states the obvious, namely that the objectives set out in the Medium Term Financial Strategy were over-optimistic and that greater flexibility of approach would be wiser in future. The Committee's investigation has been a thorn in the side of Treasury ministers and that, by and large, is no bad thing.

Where the committee refuse to be drawn collectively is on what might have been the outcome had the government pursued a true monetarist policy.

Obviously there are individual views on what might have happened, and they vary considerably. All that, however, is an area of speculation. What the report says, in effect, is that anything approaching a classical monetary policy cannot work in the United Kingdom given the imperfections and limitations of the market clearing mechanism. But while that situation cries out for a degree of fiscal and monetary flexibility, it clearly cannot be taken as an excuse for laxity. The question, once again, is whether monetarism alone is enough.

Washington

Money market mutual funds (kinds of unit trusts which specialize in investment in money market instruments) barely existed in America a couple of years ago; but now the volume of cash managed by them will soon reach \$100,000m. Brokerage houses and investment management institutions are becoming the big deposit gatherers in America and the banks are being left out in the cold.

The funds have grown so rapidly in size because they can offer a market-related rate of interest on deposits, while the arcane American banking laws severely limit the interest which the banks can pay.

Mr William Donohue, the foremost analyst of money funds, puts it pithily: "Traditional savings accounts can be hazardous to your wealth," he writes. "Even the banks are admitting it with double-digit inflation fueling the interest rate roller-coaster, letting your cash sit in an ordinary savings account is like buying tickets on the Titanic."

For investors the funds are a hedge against inflation; for the fund managers the key to a new prosperity; for the banks they are a nightmare; and for the Federal Reserve Board, they are a headache.

In Utah, Georgia and other states the legislatures are now considering bills to restrict the funds and thereby protect their local banks. In Washington, too, congressmen are promoting bills to curb the funds.

Representative Jim Leach of Iowa, for example, argues that they add to inflation and should be controlled by the Federal Reserve Board. They

are, he says, "particularly damaging to small rural-oriented financial institutions."

The funds are not subject to ceilings on interest rate payouts, while the banks are. They can rather deposits across the country, while banks are allowed branches in only a single state. Not only are the funds changing the money management habits of large numbers of Americans, with the number of fund shareholders now in excess of five million, but they are serving as a major stimulus to what could well be the greatest banking reforms in the United States in half a century.

Most money market mutual funds are set up as independent companies investing in short-term money market instruments and paying out all their earnings, after fees and expenses, to their shareholders. Normally, they contract with a separate entity, the investment adviser, who manages the fund and earns roughly a half of 1 per cent of total fund assets.

There is no front-end commission loading when a shareholder joins a fund and interest is compounded daily. To make the funds attractive many managers offer shareholders the opportunity to write cheques against their deposits in the funds in much the same way as cheques can be written against a bank account. The minimum deposit can be \$1,000, or even less in some cases.

Some funds are organized by mutual fund companies, such as the New York Dreyfus Group, while others are run by the big brokerage houses like Dean Witter Reynolds and some are run by specially set-up groups who sell shares only to selected investors, say large

Frank Vogl

pension funds or trade union members. The funds are regulated by the Securities and Exchange Commission.

Shareholders can usually withdraw their deposits almost instantly. The funds charge no commission to shareholders and, unencumbered by the restrictions which surround the banks, they have been proving enormously attractive to small investors.

In 1974 the total volume of cash managed by the funds was \$1,700m, which had risen by the end of 1978 to \$10,700m. Then interest rates began to soar and the funds took off.

By the end of 1979 they were managing \$45,100m and 12 months later the total was \$74,500m. In the last few months it has grown another \$20,000m.

As the size of the funds has grown, so have fears about their liquidity and their ability to meet huge redemption demands if interest rates plummet. The funds have responded to this by cutting the average maturity of fund portfolios to less than 30 days. It was 48 days in 1979 and 64 days in 1978.

By and large the money market funds are prudently managed. Roughly a third of the cash is invested in commercial paper, with about a quarter in bank certificates of deposit and about a sixth in bankers' acceptances and repurchase agreements. Less than a tenth of the funds is invested in Euro-dollar certificates of deposit. Treasury bills, United States securities and other instruments.

The average yield to shareholders last year was 12 per cent; today it is about 17 per cent. In contrast the banks can pay only 3 to 5.5 per cent on deposits that can be instantly withdrawn without penalty.

To stem the outflow of cash to the money market funds the banks have increased their advertising and are offering some new services and high yielding six-month certificates of deposit.

The small banks, particularly the savings and loan institutions (the American equivalent of building societies) have been the hardest hit. But even the big banks see the development of these funds as a formidable challenge.

For many brokerage houses the funds have opened the door into areas of money management which used to be the exclusive preserve of the banks. For example, many companies, big and small, are now using the funds for cash-flow management and the funds frequently offer better yields than the banks on certificates of deposit. The 30-day average maturity of the funds means that their average yield falls more slowly than does the yield on a bank certificate of deposit when money rates are declining.

Short-term United States rates have been falling since the start of this year and, as they have done so, so more and more cash has gone into the funds from institutions. Brokers have been using the funds to gather deposits in the hope that in time shareholders will be interested in moving some of their cash from the money market funds into securities. Companies like Merrill Lynch are rapidly developing "cradle to grave" financial

services, offering real estate investment and brokerage along with every other type of investment; the ability to offer instant cash deposits and cheque writing is a vital element in this.

The brokerage houses have no geographical restrictions on where they can do business across the country and the big houses have branches in every state in America. In the age of instant communication and easy long-distance travel the limitations of the retail business of the banks to single states seems antiquated.

The pressures on Washington to start removing barriers to national banking are therefore growing. Mr John Heintz, the Comptroller of the Currency, seems to be in favour of national banking and has been subtly using his powers to this end. State bank superintendents see him going too far and fear that they may be put out of business. Mr Heintz was recently sued by the state bank supervisors over this issue of national banking—an instance of the pressures in the United States financial system today.

The Federal Reserve Board will soon have to come to some decision about the funds. Their activities complicate the gathering of information about the money supply and there is no means at present of setting reserve requirements for the funds and bringing them fully into the central bank's sphere.

Mounting congressional pressure on the Fed may force it to act. But it is reluctant to move too fast, knowing that the money funds are big business and that they will not easily allow themselves to become ensnared in rules and regulations as the banks have become.

Technology

Flights of ingenuity...



The British Aerospace 146: illustrating new concepts in aerodynamics and production techniques.

wings are more difficult to manufacture.

Wing flaps and other devices can raise the "lifting power" of the aircraft, expressed in terms of the maximum lift coefficient, or the ratio of the lift of the aircraft to its drag. This in turn gives such benefits as shorter take-off and landing distances.

"Active controls" is the phrase used to describe the addition of automatic control of aerodynamic surfaces (eg, ailerons), so that abnormal flight loads can be eased and the stability of the aircraft can be augmented.

This enables the weight of the structure to be reduced, the wingspan to be increased or the tail area to be reduced, in each case raising the flying efficiency of the aircraft. In structures, significant weight savings are becoming possible through the adoption of advanced composite materials (such as carbon fibre) and, to a lesser extent, through improved light alloys. Carbon fibre composites can give typical weight savings of about 30 per cent.

On the existing A300 version of the Airbus, small parts of the aircraft have been made of carbon fibre and incorporated experimentally.

But of the aircraft whose structures are known, the new Lear Fan 2100—a seven-passenger, high-performance business

aircraft powered by two gas turbines driving a rear propeller—is the most daring. Its airframe is made entirely of carbon fibre. (Of those aircraft whose structures are not known, Flight International has speculated, Lockheed's experimental military Stealth aircraft, intended to be virtually transparent to radar, is doubtless the largest carbon-

fibre aircraft now flying.) In the systems aboard the aircraft of today—electronics, air conditioning, de-icing, braking, electric and hydraulics—various specialized advances are contributing to better performance, greater reliability and economy.

Digital techniques, and in particular the ubiquitous micro-processor, are giving a higher degree of automation on the flight deck. The A310 Airbus will offer a radically new and more flexible presentation of flight information for the pilots, based on cathode ray tube displays in place of conventional instruments.

Fibre optics offer good potential for data transmission aboard the aircraft, with reduced electrical interference and increased safety.

Finally, the sort of advances in production that are taking place are well illustrated by

present practice on the BAe 146. "Improved production must begin at the design stage", Mr Botting commented. The main change in overall approach is a determined effort to simplify the structure, using many parts (more of them machined, rather than assembled from "bent tin") and simpler connections.

Thus the airframe advances come together with the improved engine efficiencies. The refined wing designs, the new materials, the techniques of active controls and the more precise control provided by the automated systems—taken together with the parallel advances in engine design—can cut fuel consumption by about 25 per cent, compared with that of previous conventional aircraft.

Kenneth Owen

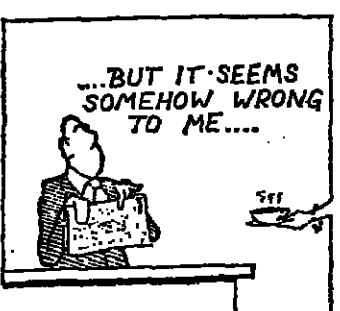
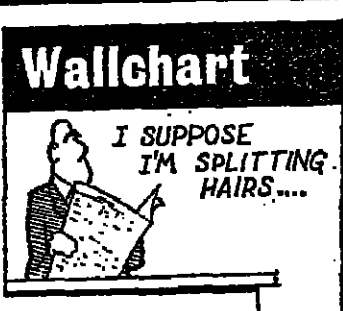
Business Diary: Bottom dollars • Reagan's Carter su rivor

Businesspeople booking executive class (British Airways calls it "club", Pan Am "clippers" and TWA "ambassadors") on North Atlantic flights seem at last to be getting value for the not inconsiderable money they pay in fares. All three airlines are giving them more room to stretch their legs and elbows.

When the class was introduced, many airlines thought that they could get away with putting businessmen in the same sort of seats, and with the same number across the aircraft (often as many as ten or 11), as the cut-price travellers in the rear economy section.

Promises were made to retain the centre seat of each three empty so that flying executives could spread their papers, but often this ideal was not achieved. The result was that the business travellers started to defect to the cheaper back seats.

This has hurt the airlines, since what money is to be made these days is made from the North Atlantic business and first-class cabins. TWA has gone over to six abreast, using seats that used to be the transatlantic airlines' first-class lounge chairs in their first-class section, while Pan Am is going eight abreast, with a new chair specially designed to cradle the lumped executive. And BA? It is likely, I hear, to announce next week that it is going six abreast, too, with a new type of seat.



● Stone Platt, the troubled textile machinery manufacturer, has turned to ICI for a group treasurer.

He is Ian Barr, 47, who has been with ICI for 20 years, latterly as a manager in the treasurer's department at ICI's headquarters at Millbank, London, where he specializes in North America and Mexico.

Neither Barr nor Stone Platt chairman Leslie Pincott was available for comment last night.

The appointment is seen as part of Pincott's retrenchment plans for Stone Platt. Pincott himself is a recruit from the Blue Chips, having been until three years ago a managing director of Esso Petroleum.

Pincott became chairman last November, taking over special responsibility for group finance with chief executive Robin Tavenner he is rounding off a period that has seen the sale of the pump and propeller divisions to concentrate on the textile and electrical business.

Barr used to be finance director of Howard Farrow, a builders in which ICI had an interest.

● Jordans' latest survey of top Scottish companies updated from 1978, will disappoint readers expecting an exciting list of ethnic names.

Top of the profits list are those familiar beasts: Disasters, Burnham Oil, Coats Patons, United Biscuits, for this is a list of the two largest of the 38,000 companies registered in Edinburgh, and trading where they will. Future editions may benefit from the Scottish company registration bulge of 1979-80, when the English registers went on strike and new companies flocked to sign up over the border.

The rash of new oil service companies erupting around Aberdeen are mostly still too small to show up in this survey, though if Star Offshore is any guide, graduation to the top 500 is no guarantee of success: Star turned round from a £195m profit in 1978 to a £3.9m loss in 1980.

Jordans says the survey indicates a better performance from Scottish industry than British industry in general.

● Scotland's Top 500 Companies 1981, Jordans (£15).

● Two British executives have been appointed corporate officers of Cummins Engine Co, based in Columbus, Indiana, the world's biggest independent maker of diesel engines.

They are John Macfarlane, 50, and Michael Howell, 33, who become respectively vice-president and vice-president of operations and vice-president European businesses.

Macfarlane, a manufacturing man, joined Cummins at its Shorts plant 13 years ago and will be responsible for the plant there, as well as those at Peterlee and his headquarters, Darlington.

Howell, a marketing man, joined Cummins only five years ago but has already served in the United States and Belgium, as well as in the United Kingdom.

He will be based at Cummins' London HQ and will be responsible for directing and coordinating the Cummins marketing strategy in the United Kingdom and Europe.

The biggest maker of diesel engines is Perkins, now part of the huge Canadian group, Massey Ferguson.

● The nomination by President Reagan of Robert Hormats as Assistant Secretary of State for International Economic Affairs will bring sighs of relief at the United Kingdom Treasury, in Brussels and beyond.

When a new President takes office all the top Administration officials change and continuity of policy ceases. Many of the new people appointed to international economic policy jobs, such as the trade representative, William Brock, or the Treasury's top man, Beryl Sprinkel, are new to international affairs.

Hormats, however, is an incredible survivor, and by far the most experienced foreign economic affairs official, which is perhaps why the White House overlooked his services under Jimmy Carter, latterly as special trade representative with ambassadorial rank.

Hormats will be in the thick of things in the State Department the United States develops international economic negotiations, a new North-South strategy, grapples with Japanese exports and heads for international economic summits.

I am told that at a recent council meeting in the north of England a councillor suggested that the lake in a municipal park would be improved if it were to be graced by a gannet. Apparently, the mayor said: "Ape, that's a good idea. We could get tarty and breed them in Pels' Corner."

Ross Davies

General Mining Union Corporation Limited

(Incorporated in the Republic of South Africa)

AUDITED CONSOLIDATED RESULTS

1980

Earnings per share increased by 75% against 1979 pro forma. Dividends per share increased by 50%.

	1980	Pro forma	1979
Group Income before Taxation (R million)	406.4	217.9	217.9
Group Income after Taxation (R million)	334.7	180.2	180.2
Attributable earnings per share (cents)	269.7	153.1	98.5
No. of shares (million)	343	196	235
Dividends per share (cents)	117.8	150	41.3
Net Asset Value per share (cents)	2,421.1	1,696.7	1,019.6
No. of shares (million)	3,035	2,135	2,428
	79.8	79.5	42

The 1979 pro forma figures show the results for that year adjusted as if the 1980 rights issue and the Union Corporation Scheme of Arrangement (whereby that company became a wholly-owned subsidiary on 26 March, 1980), had both been implemented on 1 January, 1979.

During 1980, when the average gold price was \$614 compared with \$309 in 1979, income from gold investments increased by 164 per cent to R116.8 million, whilst income from platinum rose by 148 per cent to R33.5 million and from industries by 62 per cent to R78.3 million.

The prospects for 1981 will be more fully dealt with in the Annual Report which will be issued by the end of March 1981. Under normal conditions and at an average gold price of \$500 the future holds prospects of reasonable growth.

DECLARATION OF DIVIDEND

NOTICE IS HEREBY GIVEN that a final dividend No. 110 (Coupon No. 113) of 100 cents per share in respect of the year ended 31 December 1980 has been declared payable to members registered at the close of business on 20 March 1981 and to holders of share warrants to bearer surrendering Coupon No. 113.

The dividend is declared in the currency of the Republic of South Africa. Payments from the United Kingdom office will be made in United Kingdom currency at the rate of exchange ruling on 7 April 1981, or on the first day thereafter on which a rate of exchange is available. In the case of non-resident shareholders, tax of 15 per cent will be deducted.

Dividend warrants will be posted on or about 15 April 1981.

The full conditions of payment may be inspected at the head office or the offices of the transfer secretaries of the company.

By Order of the Board
per pro General Mining Union Corporation (U.K.) Limited
London Secretaries:
L. J. Baines.

London Transfer Secretaries:
Hill Samuel Registrars Limited,
6 Grosvenor Place,
London, SW1P 1PL.

5 March 1981
Copies of the full preliminary announcement may be obtained from the London Office of the Company.

6 Forward bargains are permitted on two previous days.

Issue price in parentheses * Ex dividend
Issued by tender: † Nil paid ‡ £60 paid b. £10 paid.
ults paid. ‡ £40 paid b. £10 paid.

FINANCE IN THE ARAB WORLD

In 1978, the Western industrial nations breathed a small sigh of relief. The Opec countries' surpluses of foreign currency, which in the mid-1970s had looked likely to break the financial system, had dwindled. Falling real oil prices and rising consumption in Opec nations had reduced the collective surplus to only \$5,000m.

In 1981, the surpluses and the problems they pose for the world's financial markets are back with a vengeance. Opec countries are expected to have a surplus of about \$90,000m this year in spite of severe recession in the West. Morgan Guaranty, which was one of the more optimistic forecasters about prospects for raising the surplus down, now expects well over \$70,000m a year being added to the Opec nations' store of funds.

There is thus no getting away from the need to ensure that these surplus funds are managed properly. Nor would the commercial banks of the West, who have done well for themselves in many areas as a result of handling these funds, really want it any different. But there are growing pressures to change the nature of the operation, bringing in governments and international agencies such as the International Monetary Fund to bring some stability into the process.

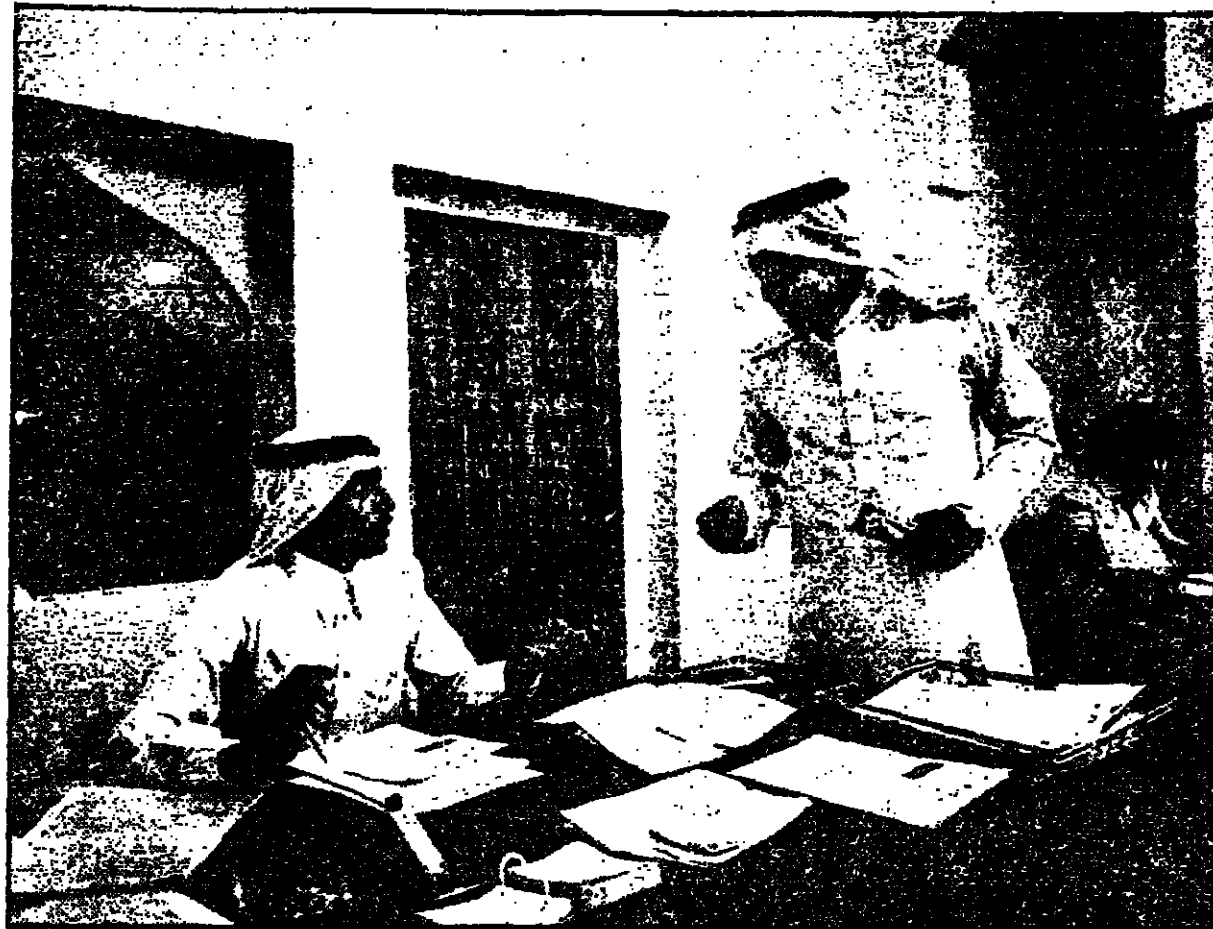
These pressures will grow because of the nature of the recycling which has to go on. The money which belongs to Opec surplus countries such as Kuwait and Saudi Arabia is the mirror image of huge deficits in the West and in the developing nations. It is estimated that in 1981 the industrial countries will have a deficit of \$23,000m and developing nations one of \$82,000m.

The developing countries are adding debts to a burden which is already too large for them to cope with. They already owe well over \$300,000m, which is equivalent to nearly a fifth of their annual national products. Many of them are already up to the limits of borrowing which banks will allow them. Others are able to get money only because the alternative is to declare them in default, something which banks are determined to avoid doing.

Although the commercial banks, led by the Americans, were remarkably successful at handling the recycling of money last time around, they will not be able to handle the Opec surpluses in prospect. On even optimistic assumptions, there will be a huge gap between what the developing countries need and what the commercial banking system will be able to deliver.

That gap will have to be closed in two ways. One is for the Opec countries to help the international agencies of the world to channel funds to developing countries. The IMF is working on a plan to raise nearly \$10,000m, either direct from Opec countries or in the international capital markets. It makes little practical difference which is done, since in the first instance the money will come from Opec governments direct.

In either case, the borrowing will have to fit in with what has become the standard pattern for Opec investment requirements. The money has to be kept in a liquid form (or at least a large part has to be) and increasingly it has to be denominated in a form which exposes the country to less



Clerks at work in the Saudi Investment Bank, Jiddah. Right: a street money changer in Oman.

These Western private banks will continue to play a key role. The attraction to them is obvious. Handling Opec money is now an essential component of any bank wanting to have a successful international operation and it is international operations which have provided the growth and the profits in banking in recent years.

But for the Opec countries themselves, there are growing attractions in not wanting to be wholly reliant on foreign banks for expert skills and services. For example, although Saudi Arabia is a heavy user of Western banks (it is

reputed to have at least \$500m with each of the top 20 banks in the world), it has formed a major bank of its own to operate in Euro-markets. The Saudi International Bank is half owned by the country's monetary agency and half owned by international banks.

Over the past five years there has been heavy pressure on foreign banks operating in the country to become largely Saudi-owned joint stock operations. There has also been a growing dependence on offshore banking operations in countries such as Bahrain, which is rapidly developing into a regional

banking centre for the Gulf. Even some Saudi banks have set up such operations.

The two other main banks through which Arab countries are building a special presence in international markets are the Gulf International Bank (GIB) and the Arab Banking Corporation (ABC).

GIB is the older, with seven nations in the Gulf peninsula owning a capital in 1980 of \$120m. Although Kuwait is one of the members of the GIB consortium, it is also one of the prime movers in the ABC bank, which with a capital of \$1,000m looks set

to become important in international banking. It has already made loans to Bahrain, Hungary and Brazil. A high proportion of the staff is likely to come from Western countries in the early stages, though the three owners (Kuwait, Libya and Abu Dhabi) intend to ensure that control remains firmly in Arab hands.

There is no doubt that ABC intends to make an impact in the world financial markets and it clearly makes sense that Arab countries which have large funds of their own to manage should start building up banking skills. In many ways, it

makes more sense to seek to develop this, rather than the normal pattern with Western companies playing a management or a consumer role in the process.

Too much should not be expected. There is little likelihood of the Arab banking centres going into competition with places like Luxembourg as straightforward financial markets. The activities in the Arab banking world are likely to remain fairly firmly linked to the funds which flow from oil. But they will grow as both the scale of the oil funds increases and as the countries build up their skills. After all, it took

many years for the Arab

countries to take over their oil industries, but this is now the normal pattern with Western companies playing a management or a consumer role in the process.

The same could happen to a lesser extent in banking, with Arab banks and finance houses playing an increasingly important role in their own right on the world stage. Up to now, the Arab world has been more banked upon than banking in its dealings with the rest of the world. Slowly but surely that is starting to change.

David Blake
Economics Editor



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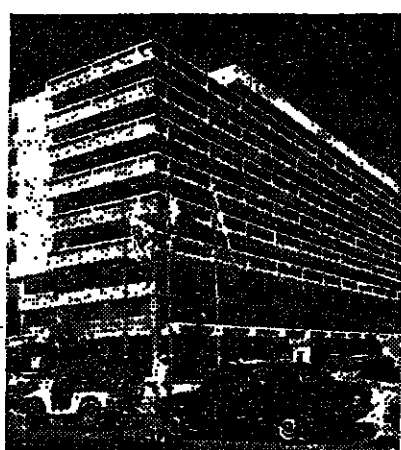
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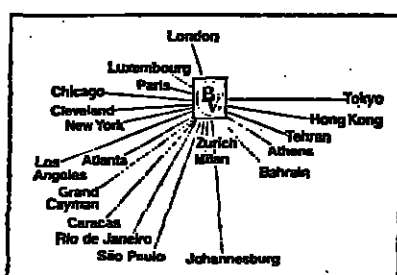
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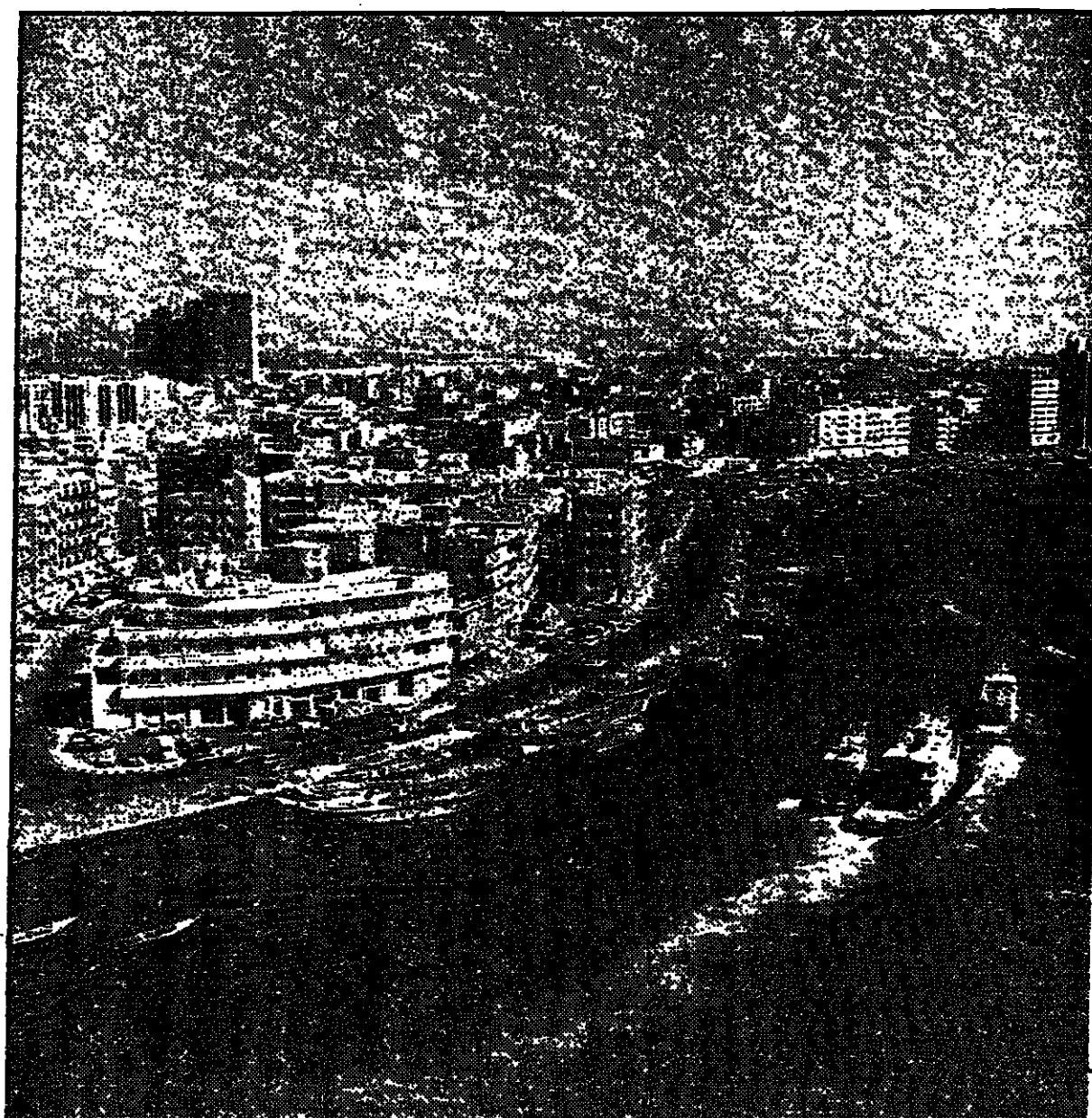
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Michael Prest finds the Arab banks' international growth still small, but asserts that their involvement will increase

Oil boom heirs seek to penetrate the US market

After almost 10 years of high oil revenues and burgeoning economies it is not surprising that Arab banks and bankers are found all over the world. Finance capital is international and, like their oriental and occidental counterparts, the Middle East bankers follow the business. In a sense Arab banks have to be more adventurous and aggressive in seeking custom. They are relative newcomers and do not have the powerful and intricate networks built up by western banks. Also there is an important and often overlooked distinction between recycling official funds and conducting private business. Recycling has largely been in the hands of the major international commercial banks which accept deposits from the central banks and monetary agencies of the surplus revenue countries. Arab commercial banks are not, in the main, big enough to handle recycling, but they are the economic and national representatives of the boom which oil has brought to their countries of origin. Developing economies need financial services, and merchants need trade finance. As one kind of financial operation is not readily separable from another, and since banks grow and pay their shareholders only by competing, the Arab commercial banks have put up brass plates around the world. Until the quadrupling of oil prices in 1973-74, banking with and for the Arab world was chiefly carried on by the former imperial institutions: the British Bank of the Middle East, Grindlays, Standard Chartered, and their French equivalents. Since that turning point, the outward movement of the Arab commercial banks has gone through two stages, and is entering a third. The first stage was the founding at home of commercial banks to meet local needs. At the same time, existing and new Arab banks began to participate in consortium banks, a relatively safe way for Arab and western banks, and for Arab governments, particularly in the Gulf, to participate in the banking boom and gain valuable international experience. The consortium banks such as Union de Banques Arabes et Francaises (UBAF), Bank of Credit and Commerce International (BCCI), Frab Bank International, and Banque Arabe et Internationale d'Investissement introduced a generation of Arab bankers to the international markets. Some of these institutions preceded the oil revenue explosion of the mid-1970s, and many were heavily staffed and influenced by Lebanese bankers and businessmen fleeing from Beirut, hence the often strong French connexion. It was also a period which saw a general expansion of consortium banks, predominantly set up as a way into the rapidly growing Euro-markets. A few of the better established Arab commercial banks, notably the Arab Bank itself, had offices outside the Middle East, London and Paris being the main centres. But the second half of the 1970s saw another trend: not content with domestic business, and anxious to make an impression commensurate with their wealth, the new Gulf commercial banks and semi-national ones such as the National Commercial Bank of Saudi Arabia, the National Bank of Abu Dhabi, the National Bank of Bahrain, and the Qatar National Bank opened offices abroad. The long-term aim of these banks is to put themselves on the same footing as the well-established European and American institutions, but a number of other companies with more limited aims appeared about the same time as well. Institutions such as the Banco Saudi Espanol, the Arab Hellenic Bank or the Saudi British Bank were started with joint shareholdings to finance trade between the participating countries. The capitalization of such ventures does not, on the whole, match that of the other commercial banks. Private investors were also looking for discreet ways of placing funds outside the Gulf. The big international banks and prestige merchant or investment banks play a role here, though in the latter case some Arab clients are suspicious of Jewish connexions. Regardless of whether those suspicions are justified, investors as rich as many merchants in the Middle East or members of ruling families in Saudi Arabia and the Gulf are looking to countries such as Switzerland and Luxembourg. Switzerland was especially attractive because of its tradition of secrecy, the strength of the Swiss franc, and its pivotal position in the gold trade. Luxembourg's function is different. It is much less restrictive than Switzerland, allowing many kinds of companies to register there. Quite a few basically private investment vehicles, such as the Arab International Trust, in which members of ruling families in the UAE among others have stakes, and the Arab Real Estate Finance and Investment Company, are also registered in Luxembourg. Many of these activities are several years old, but more recently Arab banks and investors have begun to look seriously farther afield. Founded in 1977 and based in Peru, the Arab Latin American Bank (Arlabank) is rather a pioneer. With 27 shareholders in 18 countries it tries to channel investment to Latin America. Arlabank has a Bal operation and at the end of last year acquired an 8 per cent stake in the Malaysian Development Bank and Arab-Malaysian Finance Berhad have much the same aims as Arlabank. A crucial part of the phase is penetration of last great market—United States. Arab investors have been dogged with fortune when attempting to acquire American bank interests, as the long-run story of Financial City Bankshares shows. But Arab banks, or banks major Arab, participating have set up offices, the additions being the Nati Bank of Abu Dhabi, the International Bank, and National Commercial Bank of Saudi Arabia. Since American banks dominate the commerce and recycling businesses Arabs are partial to investment in the United States. Arab banks have begun to look seriously farther afield. Founded in 1977 and based in Peru, the Arab Latin American Bank (Arlabank) is rather a pioneer. With 27 shareholders in 18 countries



Dubai Creek and the imposing waterfront of the city, centre of internationally growing Arab banking.

Banks' impact in Europe is limited

In January, 1980, the international banking community was given notice of a new force in its midst. The Arab Banking Corporation opened in Bahrain and announced that its authorized capital was to be \$1,000m. It is the most spectacular example of a trend towards bigger capitalization which has characterized Arab banks, particularly the consortium banks, over the past 18 months or so. At about the same time the Gulf International Bank raised its authorized capital by 150 per cent to \$270m. If one allows that banks can lend up to 15 times their paid-up capital, the ABC's muscle will be considerable. This is not before time. Arab banks are still small by international standards—none is among the top 150 and only a handful get into the list of 500 biggest Euromarket lenders. Moreover, many of these which do figure on the world scene are consortium banks, rather than ordinary joint stock banks. Consortium banks are a slightly strange breed. They arose during the late 1960s to cope with the heavy lending requirements of a rapidly expanding Euromarket. It was the first taste Arab banks had of the Euromarket and through their participation in Union de Banques Arabes et Francaises, Banque Arabe et Internationale d'Investissement, Frab Bank and the European Arab Bank, the potential importance of Arab commercial banks was first realized. ABC is somewhat different because its owners are all governments, whereas many of the 30 shareholders in UBAF, for example, are commercial banks, albeit with small stakes. The three shareholders in ABC are the Kuwait Ministry of Finance, the Libyan Secretariat of the Treasury, and the Abu Dhabi Investment Authority. Here ABC is following the example of the Gulf International Bank, established in Bahrain almost six years ago, in which the governments of Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates have 14.3 per cent each. No doubt the founders of ABC hope they will imitate the GIB in another respect too. GIB has become the leading Arab bank in syndicated loans, being the lead manager last year for loans valued at more than \$2,500m, including five syndications of \$500m. Although this is well behind the leaders, such as Citicorp, Chase Manhattan and Lloyds Bank International, it is a creditable performance. But GIB's ambitions do not end there. Its management, headed by Mr Abdullah Saif, the director general of the Bahrain Monetary Agency, wants to build up a bank capable of offering the gamut of services available from the big American and European banks. While ABC is already making its mark in the Euromarket, other Arab banks are also moving steadily up the rankings. UBAF has enjoyed a strong position since its inception in the wake of France's realignment towards the Arab world in the late 1960s. UBAF's syndicated loan business is about four times bigger than GIB's, although the rate of increase has slackened in recent months, partly because Euromarket activity has been low. The other significant Arab presence in the Euromarket is the Saudi International Bank. Established in London in 1975, the SIB is half owned by the Saudi Arabian Monetary Agency. The remainder of the equity is owned by the National Commercial Bank of Saudi Arabia (25 per cent), Riyad Bank (25 per cent), Morgan Guarantee Trust (20 per cent), and by Bank of Tokyo, Banque Nationale de Paris, Deutsche Bank, National Westminster Bank, and Union Bank of Switzerland with 5 per cent apiece. What is interesting about the ABC, GIB and SIB is the extent to which they are vehicles of national policy. Since they have substantial government stakes, they are in effect conduits through which governments with current account surpluses invest their funds. The Euromarket is just banking, although the looseness of the term conceals how much it covers. All these banks are also interested in trade finance, bond markets, private business, and even cheque accounts. But it is helpful to draw a distinction between the quasi-government banks such as these discussed, with huge amounts of money to invest and potentially more, and private commercial banks which may also be in the Euromarket but whose chief function is to make money for their shareholders. In so far as the "surplus" invested abroad by oil producers comprises funds owned both publicly and privately the impact on the international economy of public and private banks does not greatly differ. Nevertheless, the greatest of keep an eye on the ABC.

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FINANCE IN THE ARAB WORLD

Rodney Wilson looks at the long-term implications of the American

hostage crisis in Iran and the new role of the City of London

Faith in major Western banks has been shaken

The greatest boost to the development of Arab banking in recent years was undoubtedly given by former President Carter's decision to freeze Iranian assets as a result of the hostage seizure. Although that crisis is now ended, and the Iranian assets unfrozen, the American action has prompted considerable rethinking in Arab financial circles. There is little doubt it will have consequences for recycling strategy for a long time to come.

Faith in the most important Western banks in general as deposit takers, and United States banks in particular, has been fundamentally shaken. The Arab oil surplus states are now concerned to see a much larger proportion of their funds channelled through their own banks and financial institutions, rather than through foreign outlets over which they have little ultimate control. Even politically moderate Arab governments are concerned, while those with more hawkish tendencies are despondent that the so-called oil weapon no longer exists as a threat, as Western governments

could easily repeat the type of action taken over Iran.

The vulnerability of assets held within the United States was always realized, but the shock for the Arabs was to discover that Euro-dollar and other Eurocurrency deposits held in American banks overseas could also be blocked. A crucial reason for the emergence of Euromarkets in the first place had been the fear by communist states in the 1950s that if tensions increased during this period of cold war, any dollar assets they accumulated might be in danger.

The communist world believed that deposits held in London or Paris, even those with American banks, were beyond the jurisdiction of American law and saw the payment of interest rates in excess of those prescribed by the Federal Reserve Authority, under regulation Q, as proof of this legal immunity.

As a result of the emotion engendered by the hostage crisis, many American banks wanted to comply with the spirit as well as the letter of United States law, possibly because of worries about

their public images domestically, but more likely out of genuine concern for the fate of the hostages. Thus they unilaterally decided to block Iranian deposits regardless of where they were located geographically.

The legality of this action has been the subject of much debate among international lawyers ever since, and the issue has still not been resolved, even though it matters more in principle now than in practice, with the unfreezing of the assets. Action by two American banks, in particular, caused concern among the Arabs, and the London financial community generally.

First there was what was regarded as a precipitate move by Chase Manhattan in declaring a \$500m syndicated loan to Iran in default, as Tehran could not service the loan with its deposits frozen. Second the Chemical Bank in London sought an injunction to prevent the movement of Iranian funds within British banks because of liabilities owed to it by Iranian banks and institutions. It wanted to be the first to stake its claim.

This type of action alone was sufficient to cause Opec concern about the European as well as the American banks. This concern intensified as a result of the pressures put by the United States on the European members of Nato at the political level, as the Carter Administration sought supportive action by its allies in the hostage crisis. Those Arab countries which had never differentiated between the United States and Western Europe politically, had their worst suspicions confirmed, namely what they saw as a Western conspiracy taking place under the leadership of the United States.

Some states, at least, decided to deploy more of their assets in Far Eastern markets, and in decidedly neutral countries such as Switzerland, in case the ultimate fate might befall them as happened with Iran's \$9,000m worth of assets. There were some purchases of gold and other precious metals, although the Bunker Hunt episode served as a warning of the dangers in these markets. At the same time there was some reexamination of the

absorptive capacity of the Arab world itself.

These options are only partial solutions however, as the magnitude of the Arab surplus is such that the main reliance will continue to be on Western financial markets. Saudi Arabia, Kuwait and the United Arab Emirates have long realised this, but so also do Libya and Iraq, despite the repeated attempts to diversify their asset holdings. Nevertheless one precaution that can be taken is to ensure that as high a proportion as possible of their assets are channelled through Arab-owned and controlled banks.

Such banks still have to comply with the laws of the countries in which they operate, but at least they will also try to act in accordance with the interests of their countries of origin as far as possible. To some extent the behaviour of the most important American banks during the hostage crisis has taught Arab financiers a lesson. These institutions were supposedly multinational, and believed to respond only to politically neutral market forces, yet ultimately they reacted with some degree of patriotic fervour. If American banks can act in this way, why not, it is argued, use Arab banks that can follow this example?

Banks from the Arab oil-surplus states have, therefore, started to strengthen their presence considerably in international financial centres, both by opening new offices, and up-grading the status of existing establishments from representative offices to fully-fledged branches. At the same time they are trying to diversify their range of operations, so that they not only merely redeposit funds with important Western banks, but seek out direct lending opportunities themselves.

There is a new willingness to hire Western bank staff, so that the shortage of skilled and experienced Arab banking staff does not slow the expansion process.

Dr R. J. A. Wilson, of Durham University, is a specialist in Middle Eastern economics.



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The crisis over, the American hostages prepare to board an aircraft for home at Rhein-Main air base.

Replacing Beirut as the money centre

Ever since the Lebanese civil war there has been much speculation about which city would replace Beirut as the centre for Arab banking. Today it seems there has only been one real heir to Beirut, and that is undoubtedly London. This new role for the city may appear surprising, but the figures speak for themselves, as London has a wider range of Arab financial institutions represented than any single Arab centre.

At present London has 25 Arab banks compared to 20 in Beirut, the other aspirant to fill the vacuum left after Beirut's demise. In addition the range of financial activities in which the Arab banks in the British capital are engaged is much wider than in any Middle Eastern financial centre. Bahrain for instance is essentially a money market centre, with the emphasis on so-called wholesale banking, whereas in London most of the Arab banks maintain full branch offices, involved not only in wholesale transactions through the inter-bank market, but also providing a complete range of retail services to both business and private customers.

The expansion of Arab banking in London has been especially marked since 1976, as before then only five banks were represented, including such old established institutions as the Arab Bank and the Rafidain Bank. These represented Jordanian and Iraqi interests respectively, as both of these countries had strong historical links with the United Kingdom, dating back to the time of the sterling area.

In the past four years however 20 further Arab banks arrived, 12 during the 1978 to 1980 period alone. Their

motivation in coming to London was not primarily to ease bilateral financial dealings between their countries of origin and the United Kingdom, but rather to participate in the buoyant Eurocurrency and Eurobond markets, for which London is the world's leading centre. At the same time they aimed to provide a full range of banking services for the increasing numbers of Arab visitors who had substituted London for Beirut, many of whom were the banks' own customers.

There are now sufficient Arab banks in London to categorize them into groups according to activities. First there are the banks representing individual Arab countries, which are privately-owned commercial institutions, such as Kuwait's Gulf Bank, the Jammal Trust Bank of Lebanon, or the Khalil Commercial Bank of Abu Dhabi. These banks act on behalf of clients in their countries of origin, although they also arrange business for British customers, most of whom are either involved in exporting to the country the bank represents, or in undertaking contract work.

In addition, as London serves as a financial centre for much of Western Europe, the banks may also be involved with continental customers from countries where the banks are not represented. Often when Arab banks decide to branch out overseas, but only wish to establish one foreign branch initially, their first preference for location is London.

A second type of Arab bank in London is the part or wholly state-owned institution, also representing single Arab states, such as the National Bank of Abu Dhabi, which is two thirds

government owned, or the Qatar National Bank, half state owned. These not only handle business on behalf of their private customers, but also act for the governments of their countries of origin. They arrange, for example, syndicated Eurocurrency lending in collaboration with other Arab and non-Arab banks in London, and find that having a London office brings them to the attention of potential lead managers in a way that would not otherwise have been the case. Some, such as the National Bank of Abu Dhabi, have a city office that specializes in this type of business, while providing ordinary retail banking services through an additional office in the West End.

In the final category of Arab institutions in London are the consortium banks, although these are much more heterogeneous in nature than the other two types. Some, such as the European Arab Bank or URAFA Bank are joint venture institutions, usually with a large number of both Western and Arab banks included in the shareholders. They were created to bring together Opec capital with European or American banking knowledge, but London is only a secondary centre for such institutions, as much of the original inspiration for their creation came from the Paris banking community in the late 1960s in the wake of French government overtures towards the Arab states.

Of more significance in London are the joint Arab venture banks, such as Gulf International, which is jointly owned by the governments of Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Another Arab con-

sortium institution is the United Bank of Kuwait, which although wholly Kuwaiti, is owned by nine different banks and financial institutions, which decided to pool their resources for overseas operations.

The cautious Saudi Arabian banks adopted the same tactic by founding the Saudi International Bank, which serves as a listening post for the Saudi Arabian Monetary Agency in London, as it owns half the capital. Saudi International also represents the country's two major domestic banks, although the National Commercial Bank of Jeddah has recently established an office of its own.

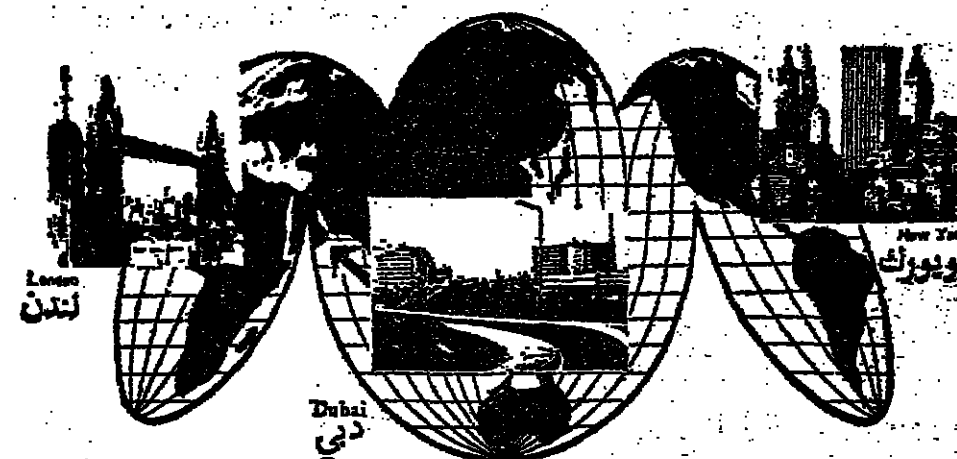
Undoubtedly the most active Arab bank in London is the Bank of Credit and Commerce International, which is largely owned by interests from the United Arab Emirates, Bahrain and Saudi Arabia, including members of the royal families of these states. Often regarded as the Arab world's foremost multinational business, it already has 26 London branches as well as branches throughout the north of England where it serves local Muslim communities. Many of its staff are Pakistani rather than Arab, but in London it accounts for a high proportion of the foreign exchange dealings by Arab visitors, and is a major force in ordinary retail banking.

It is ambitious to expand further in London and its branch network in the United Kingdom already exceeds its network in the United Arab Emirates, where hitherto it was most strongly represented. If present trends continue, it will not take long for other Arab banks to be in the same position.

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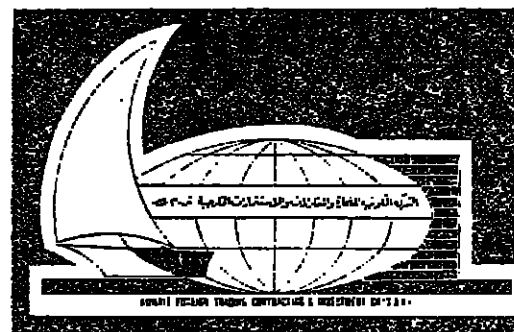
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financial summary 1980

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Total assets	KD 306,852,000
Shareholders' Equity	KD 53,491,000

activity in international financial markets

We were manager of
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other activities

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FINANCE IN THE ARAB WORLD



Khartoum: most of the Arab Monetary Fund's financing has gone to Sudan.

Michael Prest traces moves to increase financial cooperation

Monetary fund fosters unity

Arab unity has been a cherished ideal for almost a century. But while political unity has proved elusive (a succession of appeals to pan-Arab sentiment and attempted unions of Arab states have enjoyed only a short life), a degree of financial and monetary co-operation, if not unity, is now developing.

In the vanguard is the Arab Monetary Fund. Modelled on the International Monetary Fund, it was established as the result of discussions by the Arab League's Council of Arab Economic Unity in Rabat in 1976. IMF officials helped to draw up its charter, which describes the AMF as an institution for giving multi-lateral balance of payments support rather than aid.

Behind this important distinction lie several ambitious strategic objectives. The AMF is committed to encouraging Arab economic integration, promoting Arab money markets and working towards a single Arab currency. It also advises members on how best to invest their funds, particularly in foreign markets where their value is threatened by inflation and currency fluctuations.

The AMF's membership embraces all 21 country members of the Arab League and the Palestine Liberation Organization. As with the IMF, voting strength is proportionate to shareholding. So Algeria and Saudi Arabia, which have 260 shares each, are the biggest participants, followed by Egypt, Iraq and Kuwait with 500 each. The United Arab Emirates has 300, and Morocco, Qatar and Sudan took up 200 each.

Operating from headquarters in Abu Dhabi and run by Mr Jawad Hashim, a former Iraqi Minister of Planning, as president, the AMF also initiated the IMF by devising an accounting currency. Whether one sees the Arab accounting dinar (usually just called the Arab dinar) as another accounting device, like the special drawing right or European currency unit, or whether it should be considered the forerunner of an Arab currency, is debatable.

Nevertheless, the Arab dinar has found widespread acceptance, chiefly because loans are disbursed in hard currency although entered into the accounts as Arab dinars. Thus the AD is valued at three SDRs, but when at the end of last year Sudan faced a serious shortfall in its cotton crop, it received from the AMF a loan of \$20m to help to cover the balance of payments deficit.

In this sense the AMF is facilitating the flow of funds rather than advancing a new currency. Much of its financing, the biggest part of which has gone to Sudan, has been to maintain payments equilibrium between countries.

Low interest rates of between 3.75 per cent and 4.75 per cent have made AMF financing very attractive. But loans are not necessarily easy to raise. With an authorized capital of about \$1,000m, the AMF scrutinizes requests carefully. Automatic payments are made if they do not exceed 75 per cent of the borrower's subscription. An ordinary loan may be up to 225 per cent of the country's paid-up capital.

In more demanding circumstances the AMF can also make extended loans over seven years to ease structural balance of payments problems, and emergency compensatory financing, such as that to Sudan, can be given.

Although the number of AMF loans is small, the organization is already considering more ambitious plans. At its next meeting in April the board of governors is likely to examine a proposal for an inter-Arab payments system. This would be a big step forward in smoothing the flow of funds between members and within the Middle East. Under the scheme, Arab central banks would clear payments to each other through the AMF.

Such plans take time to mature, but one institution operating an elaborate regional programme is the Inter-Arab Investment Guarantee Corporation. Based in Kuwait, it is in some ways complementary to the AMF. While the latter provides assistance with balance of payments and currency, the former assures official and commercial providers of development aid.

The IAIGC was set up in 1975, almost a contemporary of the AMF, and has 19 members who have subscribed about \$8m capital. Unlike the AMF, the insurance body's capital is undetermined, but the emphasis on Arab cooperation and development is similar. First among the IAIGC's priorities is insuring joint Arab projects and schemes encouraging Arab economic integration.

Investments designed to help a host country's individual economy will also be backed, and the corporation is prepared to examine projects which it regards as desirable but which might not come to fruition without a guarantee.

A wide range of risks and projects is covered. Agriculture, property, industry, tourism, and construction equipment have all received

the IAIGC's support. But the crucial importance of the corporation is that it takes on risks other than narrowly commercial ones. War and revolution, confiscation and nationalization, currency changes and restrictions on profit repatriation, and even bureaucratic delays can be covered. Willingness to assume these risks is partly a reaction against the caution of, and alleged high premiums charged by, Western insurers.

Not all the new bodies furthering Arab financial integration are public or quasi-government. Last March 100 Arab bankers gathered in London for the inaugural meeting of the Arab Bankers Association. The president of the board, which has 19 members, is Mr Bashir Zouhairi, group general manager of the European Arab Bank. He also runs the Union of Arab Banks founded in Beirut in 1975.

The ABA is different because individual bankers rather than companies are members. It is more a kind of professional association, aiming to encourage expertise and standards among Arab bankers. It could additionally become an arbitrator, a role possible only if its integrity is accepted by all parties.

The private nature of the ABA is underlined by the fact that it grew up under the wing of the Arab British Chamber of Commerce, whereas the UAB developed within the Arab League. Moreover, Arab bankers working for non-Arab banks are eligible for membership. Unity may grow from the bottom up, rather than by constructing grand multi-lateral organizations.

Basic statistics

Top 50 Arab banks 1979 (\$m)

Bank and country	Established	As at
National Commercial Bank—Saudi Arabia	1925	13
Rafidain Bank—Iraq	1911	12
Commercial Bank of Syria—Syria	1867	11
Arab Bank—Jordan	1930	10
Banque Nationale d'Algérie—Algeria	1926	10
Banque Extérieure d'Algérie—Algeria	1967	5
National Bank of Abu Dhabi—UAE	1968	4
National Bank of Kuwait—Kuwait	1952	4
Riyad Bank—Saudi Arabia	1937	4
National Bank of Egypt—Egypt	1898	4
Gulf Bank—Kuwait	1960	4
Bank of Credit & Commerce International—Luxembourg	1972	4
Alahli Bank of Kuwait—Kuwait	1967	3
Union de Banques Arabes et Françaises (UBAF)—France	1970	3
Libyan Arab Foreign Bank—Libya	1972	3
Banque Misr—Egypt	1920	2
Umma Bank—Libya	1968	2
Wahda Bank—Libya	1970	2
Commercial Bank of Kuwait—Kuwait	1961	2
Credit Populaire d'Algérie—Algeria	1965	2
Banque du Caire—Egypt	1932	2
National Commercial Bank—Libya	1970	2
Banque Arabe et Internationale d'Investissement (BAII)—France	1973	1
Saudi International Bank—UK	1975	1
Bank of Alexandria—Egypt	1957	1
Al Bank Al Saudi Al Fransi—Saudi Arabia	1977	1
Société Tunisienne de Banque—Tunisia	1956	1
Bank of Kuwait & the Middle East—Kuwait	1971	1
European Arab Bank Group—Luxembourg	1972	1
Arab Banking Corporation—Bahrain	1950	1
Gulf International Bank—Bahrain	1975	1
Qatar National Bank—Qatar	1965	1
Saudi British Bank—Saudi Arabia	1976	1
Burgan Bank—Kuwait	1975	1
Credit du Maroc—Morocco	1953	1
Al Bank Al Saudi Al Hollandi—Saudi Arabia	1977	1
Banque Intercontinentale Arabe—France	1975	1
Arab International Bank—Egypt	1971	1
Banque Nationale de Tunisie—Tunisia	1959	1
UBAF Bank—UK	1972	1
First Arabian Corporation—Luxembourg	1972	1
Arab National Bank—Saudi Arabia	1972	1
Union Méditerranéenne de Banques—France	1975	1
Bank of Oman—Dubai, UAE	1967	1
United Bank of Kuwait—Kuwait	1966	1
Arab Latin American Bank (Arlebank)—Peru	1977	1
National Bank of Dubai—Dubai, UAE	1963	1
Bank of Bahrain & Kuwait—Bahrain	1971	1
Bank Al-Jazira—Saudi Arabia	1975	1
Saudi Cairo Bank—Saudi Arabia	1979	1

UAE: restricted licence banks* foreign assets & foreign liabilities

Period ending	Foreign assets (\$m)	Foreign liabilities (\$)
First quarter 1979	244	342.9
Second quarter 1979	278.8	344
Third quarter 1979	308.7	411.1
Fourth quarter 1979	312	374.7
First quarter 1980	321.1	414.9
April 1980	329.5	465.3
May 1980	326.7	447.1
June 1980	378.9	484.1

*Restricted licence banks—first authorized in 1976—are permitted to accept local currency deposits from non-residents but otherwise operate as commercial banks.

Domestic commercial bank deposits

	Demand deposits	Time deposits	Date
Algeria (dinars m)	26,412	9,084	May 1980
Bahrain (dinars m)	129.68	239.10	Sept 1980
Egypt (£E m)	1,072.9	3,176.9	July 1980
Iraq (dinars m)	187.5	342.3	June 1977
Jordan (dinars m)	214.28	348.53	Aug 1980
Kuwait (dinars m)	1,950.7	974.4	Aug 1980
Lebanon (£Leb m)	3,152	15,182	Dec 1979
Libya (dinars m)	708.2	618	Dec 1979
Morocco (dirhams m)	12,698	4,239	Aug 1980
Oman (rials m)	64.2	165.3	July 1980
Qatar (rials m)	2,088.8	2,530.8	June 1980
Saudi Arabia (rials m)	32.84	12.24	July 1980
(plus 2.8 foreign currency deposits)			
Sudan (£Sud m)	482.57	159.13	Aug 1980
Syria (£Syr m)	5,552	1,765	Dec 1979
Tunisia (dinars m)	490.73	460.36	Aug 1980
UAE (dirhams m)	4,780	12,863	June 1980
Yemen, North (rials m)	680.6	1,510.7	Aug 1980
Yemen, South (dinars m)	53.05	38.99	June 1980

* Quasi monetary deposits
** Quasi monetary liabilities

Foreign exchange assets

	International liquidity foreign exchange (\$m)	Central monetary authorities—foreign assets* foreign liabilities*	Commercial banks—foreign assets*
Algeria	3,437 (Oct 1980)	14,172 (May 1980)	3,330 (May 1980)
Bahrain	904.6 (Oct 1980)	317.25 (Oct 1980)	324.2 (Sept 1980)
Egypt	1,083 (Aug 1980)	1,211.3 (July 1980)	2,360.1 (July 1980)
Iraq	6,744.7 (Dec 1977)	1,574.7 (Sept 1977)	127.4 (Sept 1977)
Jordan	1,270.5 (Oct 1980)	376.86 (Aug 1980)	122.30 (Aug 1980)
Kuwait	3,066.6 (Oct 1980)	812.4 (Sept 1980)	177.9 (Aug 1980)
Lebanon	1,776.8 (Sept 1980)	6,252 (Dec 1979)	9,372 (Dec 1979)
Libya	10,914 (July 1980)	2,307.2 (Dec 1979)	128.1 (Dec 1979)
Morocco	294 (Sept 1980)	781 (Aug 1980)	1,058 (Aug 1980)
Oman	793.3 (Sept 1980)	310.3 (July 1980)	100.8 (July 1980)
Qatar	318.4 (June 1980)	18.4 (March 1980)	2,471.5 (June 1980)
Saudi Arabia	21,943 (Oct 1980)	225,820 (April 1980)	24,080 (July 1980)
Sudan	25,072—SAMA other assets (Mar 1977)	24.22 (Sept 1980)	136.11 (Aug 1980)
Syria	362 (May 1980)	1,716 (May 1980)	707 (Dec 1979)
Tunisia	641.2 (Oct 1980)	248.45 (Aug 1980)	52.7 (Aug 1980)
UAE	1,952.8 (Oct 1980)	5,772 (June 1980)	12,302.2 (June 1980)
Yemen, North	1,319.4 (Oct 1980)	6,411.7 (Aug 1980)	8.5 (Aug 1980)
Yemen, South	233.67 (Sept 1980)	80.29 (Aug 1980)	50.07 (June 1980)

* Expressed in local currencies

compiled by Anna Krajewska, Middle East Economic Digest

Michael Prest examines the impact of Islamic principles and Rodney Wilson traces

the history of time-honoured traditions

Resurgence of old ideas about handling cash

"O ye who believe! Observe your duty to Allah, and give up what remaineth from usury, if ye are believers. And if ye do not, then be warned of war from Allah and his messenger."

Despite the severity of this admonishment, it is not to be found in the Koran. The passage comes from the founding document of the Kuwait Finance House, one of the most successful of the new Islamic banks. It vividly summarizes how the revival of Islamic fortunes around the world has been accompanied by a resurgence of old ideas about the handling of money.

What the Prophet meant in the holy book's celebrated verses forbidding the practice of *riba* is the subject of intense theological debate. There are some who hold that only excessive taking and giving of interest are forbidden. Others, like the French Islamic scholar, Maxime Rodinson, suggest that *riba* may have been a specific practice, known to the wider world, which failure to pay a debt could lead to the immediate doubling of the principal.

Whatever the truth, there is no doubt that from the time of the first Muslim communities, charging interest was against Sharia law, just as usury was condemned for a long time by the Christian church, though perhaps with less force. The practice has naturally been different, and plenty of devout Muslims believe today that charging and receiving interest will not send them to hell.

It is nevertheless remarkable how fast the rebirth of Islamic financial principles has been. Since the foundation of the Islamic Development Bank in 1974, 19 such banks or institutions have been started in the Arab world, of which 15 are firmly in business. Others exist in Pakistan, Iran and Nigeria, and more are planned. London, Geneva, and other bastions of orthodox finance will soon play host to Islamic banks. Luxembourg is to receive a holding company, Islamic Banking System International Holding.

The first efforts in modern times to put Islamic financial principles into practice were made unsuccessfully, in Pakistan about 25 years ago. Other equally unsuccessful attempts followed in Egypt. Ironically it was the wealth generated by the ubiquitous industrial countries' demand for oil that made Sharia banking possible.

Central to those values, and reinforcing Sharia notions of interest, is the Muslim belief that man is charged by Allah with looking after the earth; nobody should profit from work he has not performed. Millions of Muslims hold that the payment and receipt of interest destroys the essential bond between man and Allah, and between man and man.

In some parts of the Arab world religious judges have continued to uphold pleas against payment of usury. This week in the United Arab Emirates, Mr Muhammad bin Khalifa al-Maktum, a relative of the Ruler of Dubai, is suing a syndicate of local and international banks claiming he should not be required to pay the agreed interest on a \$16m loan.

As they saw their riches increase in the early 1970s, a large number of Arab Muslims became unhappy about using conventional financial institutions. Many had previously solved the

problem by not using a bank: if you are poor and have little cash there is no need for bank. In the middle of the last decade, however, businessmen and other citizens found that they could not store all their cash under the bed.

Ordinary business pressures, and the closer integration of the region into world trade, also pushed Muslims into a dilemma: whether to use Western banks or to lose business and perhaps be guilty of not showing proper stewardship of the earth. It is significant that members of the Saudi royal family, the richest and most conservative in the area, took the lead in establishing new Islamic institutions (those acceptable under Sharia law).

The Islamic Development Bank is based in Jeddah, Saudi Arabia's commercial capital, and the Saudi Arabian Government is the highest single shareholder, with 25 per cent of the equity. There are 29 shareholders, among which the Governments of Libya, Kuwait and the United Arab Emirates are also important.

An interesting aspect of this first big Islamic financial institution, whose authorised capital is \$200m Islamic dinars, is that it was conceived as an aid institution, to assist the economic development of Muslim countries. This it does by taking funds from the bank's profits and equity, not interest, but equity profits on the countries' success. By the same token, it shares in losses.

Here we are at the heart of the difference between Sharia banks and others. In the former's view, they put money actively to work in trade, industry or agriculture and take the risk. Depositors at the bank get a share of the profits earned in business. Others exist in Pakistan, Iran and Nigeria, and more are planned. London, Geneva, and other bastions of orthodox finance will soon play host to Islamic banks. Luxembourg is to receive a holding company, Islamic Banking System International Holding.

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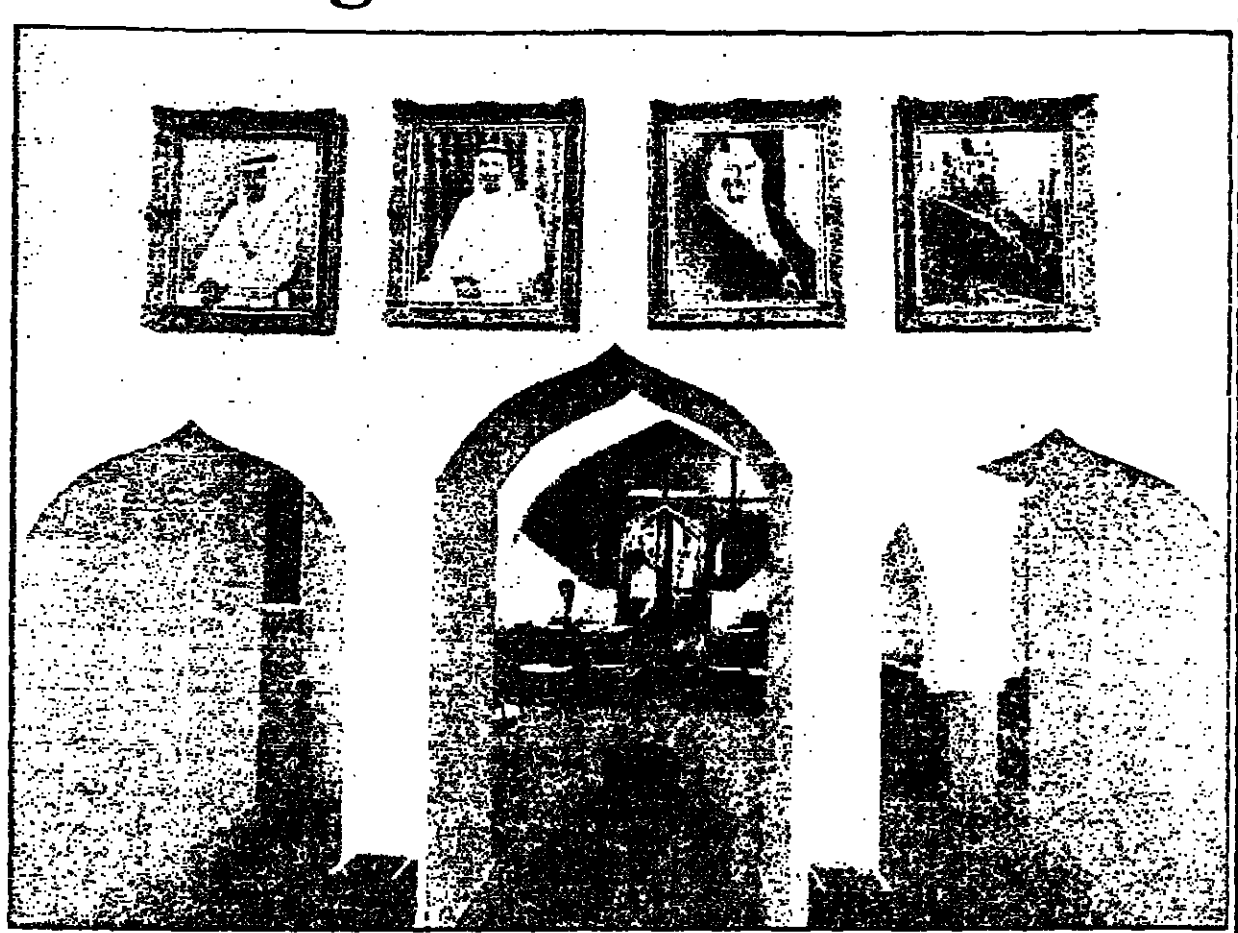
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The offices of the Saudi Investment Banking Corporation in Jeddah.

murabahah (literally profit-making).

Perhaps the most up-to-date of these banks is the Kuwait Finance House, founded in 1977. Its popularity is such that deposits have grown to almost \$500m and two branches have been opened. It has moved into operations which the relatively simple approach of the Islamic Development Bank might suggest are incompatible with the technicalities of Islamic banking.

Islamic banks, for example, by opening a letter of credit for the supplier of goods when an invoice is presented by the Kuwaiti importer. Once the shipment is made, the bank "sells" the goods to the importer at a predetermined profit, within an agreed payment period.

The Kuwait Finance House also conducts foreign exchange operations, although only in the spot market, and will finance domestic business such as real estate transactions on behalf of clients. This process, called *mutajarah*, works like external trade: the bank effectively concludes two agreements, one to buy the land on its own behalf and the other to sell it to the customer, at a profit. The chief risk comes in payment delays and debts cannot be accumulated (as in an overdraft) or rolled over easily.

But these drawbacks have not prevented Islamic banking from spreading. The Islamic Bank International Association, whose president is Prince Mohammad, second son of the late King Faisal of Saudi Arabia, has encouraged banks in Abu Dhabi, Bahrain, Dubai, Egypt, Jordan, Qatar and in non-Arab parts of the Muslim world.

Prince Mohammad has also been the driving force behind the Islamic Investment Company, which is intended as a kind of mutual fund, incorporated in the Bahamas. Separate companies such as the Islamic Exchange and Investment Corporation, based in Qatar, specialize in foreign exchange dealing. It is a long way from Allah's strictures, as enunciated by the Prophet.

Dismissal is rare, and even serious incompetence or impropriety is usually dealt with in a fairly lenient fashion by senior officials of the bank concerned, without the employees involved having to leave. The greater security, and life-long institutional attachment nevertheless, does not imply that employees have a quiet life, but it has the advantage of ensuring that all their energies go into their current job, rather than devoting time and effort to searching around for alternatives.

A similar sense of loyalty permeates the relationship between Arab banks and their customers, as clients rarely shop around different institutions in the way that is becoming increasingly prevalent in the West. The provision of banking services is almost regarded as a kind of exchange in favours. Thus the depositor will be willing to forgo some interest earnings that perhaps could be gained by going to a rival institution, because he realizes that the bank will appreciate such loyalty by giving him credit preference, also at lower rates than those charged elsewhere.

Where both banker and customers are Muslims, this will reinforce their preference for avoiding any practice that seems like usury. The overall effect of this is to downgrade the role of interest as a pricing mechanism in determining the channelling of custom as conventional Western economic theory suggests, and instead to substitute social criteria for finance allocation.

Arab banks are willing to provide a much wider range of non-financial services outside the usually accepted realm of bank activity than the case with Western banks. Some of the Arab banks in London, for example, will book hotel accommodation, arrange flights, organize medical appointments and often hospital treatment on behalf of clients from the Arab world. Those in important positions are treated with the respect they expect, while there is a tolerance for the older customer rarely found in Western financial institutions.

Although the vast majority of the employees of the major Arab commercial banks are no longer blood relatives of the founders, there remains a much greater

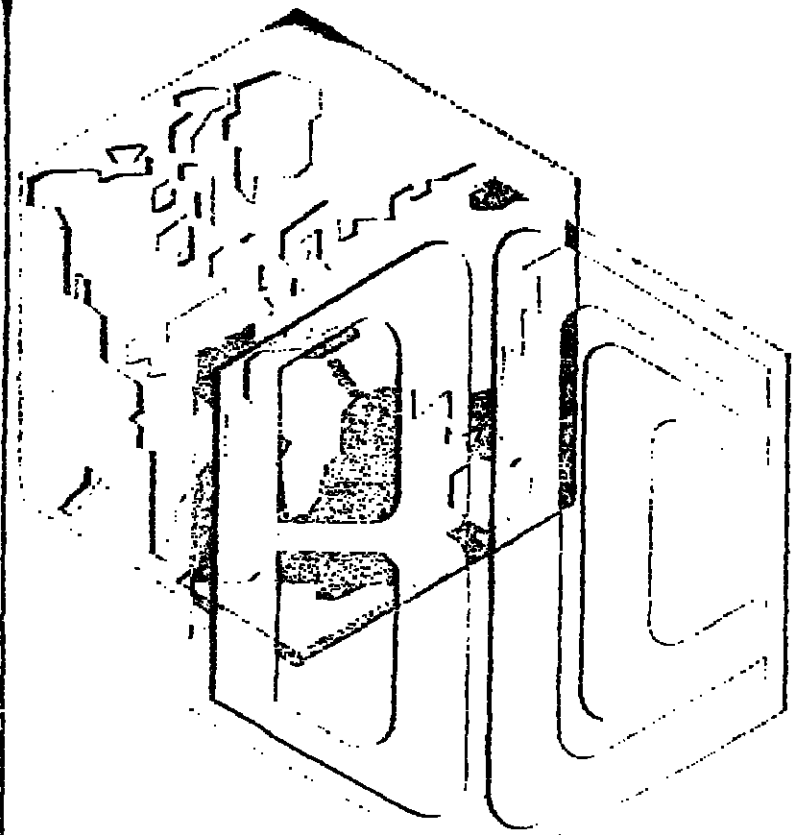
sense of institutional loyalty than is common in Western banks, almost as if the employees belonged to an extended family. Managers are not avid readers of the job vacancy columns of the financial press in order to find employment with rival institutions, as is the case with many American bankers. The employee feels that if he supports the bank, then it will in turn support him through whatever the future holds.

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To some extent all banks have characteristics that reflect their countries of origin. Sometimes they may seek to build these images as a marketing ploy, but often they take a genuine pride in their nationality.

Whatever the reason for emphasizing national characteristics, there is no doubt that the international banking scene would be much less colourful in the absence of such a variety of images. Thus United States banks are seen as aggressive in seeking business, mirroring the competitive nature of American society.

German banks emphasize their dependability, putting less emphasis on the immediate and more on the long-term involvement they have with their clients. Japanese banks like to show their technical competence, while British banks emphasize their honesty and consistency, and the gentle, mainly relations which they share with their customers.

What description, however, would be most apt in the case of Arab banks? These banks are the latest entrants to the international banking community, but to depict them as struggling infants would be a misrepresentation.

In order to understand the uniqueness of Arab banks today, it is necessary to go back into their moneychanging past, as it is there that many of their distinctiveness lie. This distinctiveness manifests itself in two main ways, first through the organizational forms of the institutions themselves, and second through their methods of conducting banking business.

The traditional money-changers were always organized as family businesses, both in terms of ownership and employment.

Outside capital was rarely brought in, nor were employees from other families, although in the context of Arab society, even second cousins could count as family members. Many of the leading Arab banks, such as the National Commercial Bank of Jeddah, the Arab Bank itself, remain family-owned institutions, in these cases in the hands of the Mahfouz and Shoman families respectively. In both these instances, despite the necessity of recruiting outside staff for even fairly senior managerial positions as a result of the enormous expansion of operations, family members retain the top management positions.

Although the vast majority of the employees of the major Arab commercial banks are no longer blood relatives of the founders, there remains a much greater

sense of institutional loyalty than is common in Western banks, almost as if the employees belonged to an extended family. Managers are not avid readers of the job vacancy columns of the financial press in order to find employment with rival institutions, as is the case with many American bankers. The employee feels that if he supports the bank, then it will in turn support him through whatever the future holds.

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	In BD,000's	
	31st Dec. 1980	31st Dec. 1979
ASSETS		
Cash and Due from Banks	141,278	69,567
Loans, Advances and Overdrafts	130,099	119,080
Other Current Assets	5,462	3,164
Investments	15,971	14,467
Fixed Assets	4,522	4,705
Total Assets	297,332	210,963
LIABILITIES		
Deposits	266,242	189,554
Other Current Liabilities	11,085	5,197
Total Liabilities	277,327	194,751
SHAREHOLDERS' EQUITY		
Share Capital	8,000	4,000
Reserves	12,005	12,212
Unappropriated Earnings	20,005	16,212
Total Shareholders' Equity	20,005	16,212
Total Liabilities and Shareholders' Equity	297,332	210,963

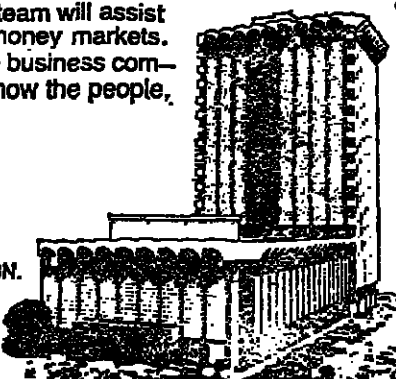
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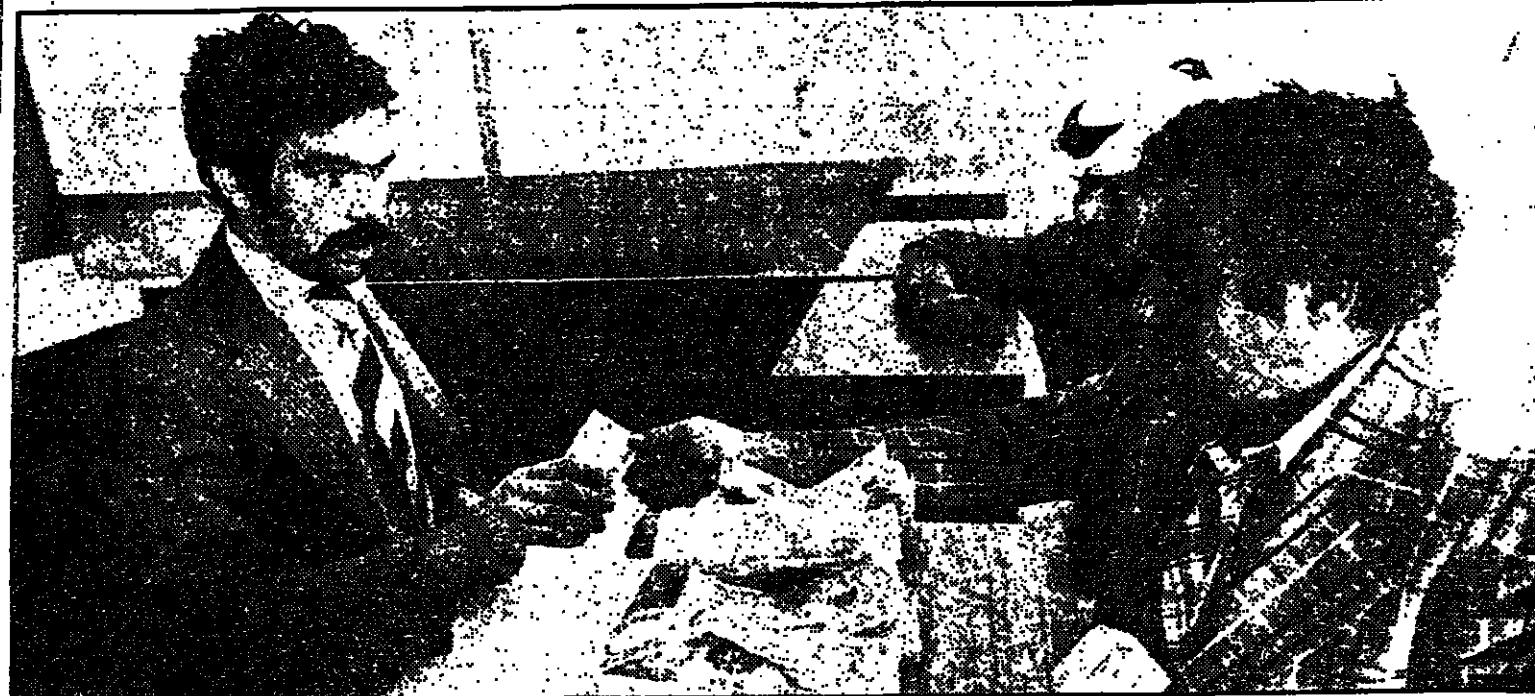
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Offshore banking units looking forward to profitable year



After a period of uncertainty, Bahrain's offshore banking units (OBUs) are looking forward to a profitable year. Evidence that the sector has managed to weather the disruption caused by the Iranian revolution and the continuing war between Iran and Iraq, coupled with the announcement that Saudi Arabia's plan is going ahead, is producing a surge of quiet optimism.

But many bankers are still keeping a close eye on the end of 1976, the first full

year of operations. OBU assets totalled \$6,200m; a year later they had more than doubled, to \$15,700m. By the end of 1978, they were worth \$23,400m, a figure which meant that the Bahraini sector had almost achieved the same amount of business as its main rival in Singapore. Assets continued to climb, and by the end of September, 1980, they were worth a record \$33,600m, compared with just under \$27,800m at the end of 1979.

Altogether more than 64 banks are represented, from almost every part of the globe. Licences are issued by the Bahrain Monetary Agency (BMA), which insists on certain requirements such as the reporting of assets and liabilities to its board and assurances that the local unit has adequately qualified staff. OBUs are also prohibited from accepting deposits from resident Bahrainis, a measure the BMA has adopted to protect the local banks.

However, aside from these restrictions, the OBUs enjoy considerable privileges. They are exempt from corporate and personal taxes, do not have to maintain mandatory reserves, and operate free of any statutory liquidity ratios. In addition, the islands' excellent communications, progressive social attitudes (by Gulf standards), trained work force and location midway between Singapore and Europe, not to mention the surrounding oil wealth, give Bahrain advantages that few countries in the developing world can match.

However, the very attractiveness of Bahrain as an offshore centre is posing new problems for the established banks as the sector reaches maturity. Although they welcomed news in July, 1979, that the BMA had imposed a moratorium on the granting of new licences, it soon developed that the BMA acted less to stem the rapid influx of new banks than to ensure a wider geographical spread of institutions.

Shortly after the ban was

lifted a few months later, new licences were granted to several Asian institutions, from Philippines, Malaysia, Hongkong and Japan. Arab banks were also encouraged to apply for licences and several have now opened OBUs in Bahrain. They include Al Bahrain Arab Bank, the Bank of Bahrain and Kuwait, the United Gulf Bank and the Dubai-based United Bank of Oman.

While the lifting of the ban was encouraging to those banks hoping to get a foothold in the sector, the older institutions were concerned that the entry of more than a dozen new banks would increase competition to the point that profit margins would be wiped out. By mid-1980 it was clear that their fears were not without foundation: the combined net spreads of the OBUs—the difference between what they earn on their assets and what they have to pay on liabilities—had fallen below 1 per cent, and were continuing to decline.

More worrying to the Western banks, and to the smaller Arab and Asian institutions as well, has been the arrival of two new Arab-owned "multinationals", the Arab Banking Corporation (ABC) and the Gulf International Bank (GIB). The former was established by emiri decree in January 1980 with an authorized capital of no less than \$1,000m of which \$750m was paid up.

Although ABC did not begin operations officially until June, Mr Abdullah Saudi, the chief executive, reported that assets had risen to just under \$2,000m by the end of the year. Total deposits reached \$1,500m, while the loan portfolio stood at \$295m. In addition, the bank had participated, as lead manager, in syndicated loans worth more than \$2,000m, including the \$300m credit raised for the Italian state oil company, ENI, and another worth \$300m for the Government of Bahrain.

GIB, which has been

Business in progress at National Bank of Bahrain Manamah.

operating as an offshore unit for fewer than five years, equally aggressive. With few years ahead of ABC, recorded participation in medium-term lending is a year ahead of the \$10,000m. Equally important was the rise in the bank's average returns: 0.71 per cent on assets during the first nine months of 1980 compared to 0.60 per cent in 1979.

Although some Western bankers claim that the fact that both banks are Arab-owned—ABC by the government of Libya, Kuwait and Abu Dhabi, and GIB by a seven Gulf countries—gives them an edge in the battle to recycle the vast Arab oil surpluses, both Mr Saudi and the GIB chairman, Mr Abdulrahman Saif, who also serves as director-general of the BMA, attribute their success to their lack of having to engage in demarcation disputes with parent companies as to their willingness to see business wherever it found.

Apart from the entry of the established OBUs, also experiencing some of the problems in dealing with the regional currencies—Saudi and Qatari rials, Kuwaiti and Bahraini dinars, and UAE dirhams—make up about a quarter of their total assets.

Despite this, the prospect of participating in the huge new development project planned during the next few years, as well as in the recycling of Arab oil wealth, is enough to attract more OBUs to Bahrain. With the Saudi development plan alone worth \$345,000m in 1980-85, and with the combined OPEC surplus set to reach \$180,000m this year, more banks can expect increased business at minimum, and, if all goes well, significant profits as well.

Pamela Ann Smith

Kuwait

Rich—yet short of money

Kuwait presents two faces to the financial world. In international markets it probably has the most advanced services of all the oil-rich Opec countries. Long experience of investing oil revenues has enabled the country to build skills and institutions which are the envy of the rest of the world.

At home, the country's financial markets are much less advanced. The pursuit of targets for the exchange rate, interest rates and free movement of capital have, on occasion, combined to produce a paradox.

Kuwait, the richest country in the world, often finds itself short of money, not in the sense of finding it hard to pay its way. The massive surpluses each year on its balance of payments have produced total holdings of foreign currency of \$50,000m.

The problem is of quite another kind. It is that by holding down interest rates, the Government has produced a flood of money out of the country into other markets where interest rates are higher.

Because the Government pursues a stable exchange rate policy, anyone moving his money out of Kuwaiti dinars into, for example, dollars, knows that he is not taking any great risk of losing on a parity change. Since the Central Bank of Kuwait intervenes to hold down interest rates, with an effective ceiling of about 10 per cent, it is possible to borrow money in Kuwait at 10 per cent, lend it in dollars at about 20 per cent and pocket the difference.

The anomaly of this situation illustrates a deeper issue. Kuwait has never come to terms with whether it really wants to be an important banking centre or not. Since the country operates under some fairly severe restrictions. They have to be locally owned (though one, the Bank of Bahrain and Kuwait is only 50 per cent locally owned) and they are mostly in private hands. The Bank of Kuwait and the Middle East has a government stake.

The oddities of the Kuwait money market have not prevented these banks from reaching enormous size. The biggest, like the National Bank and the Gulf Bank, are among the largest in the Arab world. But their functions are heavily biased towards trade credit, something of a boom area in the mid-1970s because of the country's rapid economic growth.

The long-term growth of the banking sector, however, is likely to lie in another direction, the provision of capital to the international markets. Kuwait's assets are channelled through a number of investment institutions. There are three investment companies, the Kuwait Investment Company, the Kuwait International Investment Company and the Kuwait Foreign Trading, Contracting and Investment Company.

These three companies were particularly active in the initiatives which led to

the setting up of a market in bonds denominated in Kuwaiti dinars in the mid-1970s, the country's most ambitious effort yet to break into the big league as a financial market in its own right rather than as a supplier of funds to markets elsewhere.

The KD market, as it is known, had good and bad points. The good point was that many of the world's top names in the list of borrowers used the market's facility starting with the city of Oslo in 1978.

The bad news was that they were in effect being given subsidies, since Kuwait interest rates were held down. On that basis, there was no reason for lenders from outside Kuwait.

One estimate made at the time that the Government decided to declare a moratorium on further borrowings in late 1979 was that 80 per cent of all such bonds were held in Kuwaiti hands. The Government stopped the issuing of new bonds in order to cut the drain on the country's liquidity which they represented. At the same time, the Government introduced a package of other measures designed to keep up the liquidity level in the country.

A market in secondary bonds was allowed however, with the Arab Corporation for Trading Securities playing a leading part. As part of this change, a market in certificates of deposit has also begun to develop.

It is, however, as a source of investment funds that Kuwait has the real financial muscle it needs to become a financial services sector. These funds are channelled through public and private agencies. The Government uses foreign banks in some countries and the Kuwait Investment Office in London to handle its own funds. Private investment is handled by such companies as Gulf International and the Kuwait Real Estate Investment Corporation.

Property has long been a favourite investment medium for the Kuwaitis and this is shown on their own stock exchange. This market can generate large transactions, but the number of people involved and the breadth of shares are small. Only Kuwaiti nationals are allowed to buy shares on the stock exchange. Because some of the individuals involved are very rich, they can generate colossal turnover, with real estate, banks and insurance companies coming top of the list.

But there is little incentive for the leading companies to seek a stock exchange quote and the market has its oddities, as was shown in 1976 when the Government spent \$360m on shares to stop prices falling too far. The stock exchange is a pretty speculative venture, rather than a source of capital for the industry, but the odds for the players are better than in most gambles.

David Blake

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Saudi Arabia

Fears that inflation may soar once again

During the past two years the Saudi Arabian Monetary Agency (SAMA) has been remarkably successful in bringing the money supply under control. The rate of increase is starting to rise again, however, with bank advances alone rising by more than 3 per cent a month in the second half of 1980, half as much again as the average monthly increase during 1979.

Inflation remains within single figures, but there are worries that it may soon rise once more as spending under the three five-year plan, covering the period up to 1985, gets under way. It is going to be difficult for an economy with a workforce of fewer than two million to absorb development expenditure of more than \$235,000m in just five years without serious inflationary consequences.

SAMA's task in helping to steer the Saudi Arabian economy is made more difficult by the lack of conventional means of monetary control, yet it is still expected to exercise strong authority as the kingdom's central bank. One critical problem is its ability to use interest rates as a means of curbing credit expansion, as interest is officially prohibited under Saudi Arabia's Islamic law. The banks levy service charges in lieu of interest,

set at about 5 to 10 per cent during the past year, but SAMA, as the representative of Islam's holiest government, has to set an example itself by complying with the spirit as well as the letter of the law. Therefore, although a proxy for interest exists, SAMA never indicates what service charges the banks should levy, or puts pressure on the banks to change their rates to achieve monetary policy objectives. Concepts such as a variable minimum lending rate are alien to Saudi Arabia.

The negligible rewards for deposits in Saudi Arabia, where most funds are left in current accounts which earn no interest, has prompted many local citizens with surplus savings to open deposits outside the country, especially in Bahrain, where interest can be earned in line with international rates. As there are no foreign exchange controls there is little action SAMA can take to curb this exodus of funds. In addition, some unscrupulous borrowers from the two most important domestic lenders, the National Commercial Bank and the Riyadh Bank, have even redeposited funds in Bahrain.

The banks themselves naturally disapprove of such speculative practices, but they are unwilling to ask too many questions concerning the deployment of funds, as personal privacy

in all financial affairs has to be respected in Saudi Arabia. Moreover, such an exodus of funds could, in curtailing the money supply, assist anti-inflation policy. The difficulty is that many of the funds deposited in Bahrain are lent back into Saudi Arabia, yet they are beyond SAMA's direct control.

It would be erroneous, nevertheless, to blame Bahrain for any shortcomings in the Saudi Arabian financial system. Even though almost half of the total supply of rials is now accounted for by Bahrain, SAMA has prudently not attempted to penalise its rather vulnerable offshore neighbour, which the Saudi Arabian Government seeks to protect for political perhaps more than economic reasons. SAMA officials argue that if the funds did not go to Bahrain they would merely find their way into other international financial markets where the Riyadh authorities have much less influence.

Nor are exchange controls an answer, as a large portion of the funds remain in so-called offshore rials, so no conversion is necessary any way. To prevent conversion of the remaining funds into dollars and other western currencies would present SAMA with difficulties, as much of the exchange business in Saudi Arabia is carried out by money-changers such as the Al-Rajhis, who are also beyond

the agency's control. Hence the only solution, and the course SAMA appears to be taking, is to cooperate closely with its counterpart, the Bahrain Monetary Agency, to ensure that mutual interests do not conflict.

Apart from interest rate variations, other standard methods of controlling the money supply include open market operations, changes in liquid asset ratios and exchange rate adjustments. The first option, open market operations, is precluded in Saudi Arabia, as there is no market in government securities, and any temporary deficits which arise are simply financed by drawing on the kingdom's vast liquid reserves rather than through domestic borrowing. This, nevertheless, has implications for the supply of rials, as deficit financing results in the conversion of dollar reserves into local currency without any sterilisation of domestic funds.

The second option of changing liquid asset ratios has been taken up on several occasions. In 1979 the ratio was reduced from 15 to 12 per cent on demand deposits, and 2 per cent on the small volume of time and savings deposits. Last year it was further reduced to 7 per cent on demand deposits, although this was mainly to counter the domestic shortage of liquidity due to the flight of funds to Bahrain, and SAMA's

move must essentially be seen in defensive terms.

The third option of exchange rate changes has also been tried, as in March 1980 when SAMA revealed the rial instead of devaluing, as most dealers believed would happen. This changed expectations and penalized those Saudis who had speculated in other currencies in Bahrain; and this was, without doubt, the main aim of the authorities. At the same time it may nevertheless have caused a mild monetary stimulus by increasing the value of rial balances.

Until these more complex methods of monetary control are used with greater frequency, the Saudi authorities will probably be forced to rely on the rather crude technique of simply halting certain government expenditures from time to time, usually by delaying payments to contractors. Such methods create considerable uncertainty, and are often detrimental to smooth development through project coordination. In the long run it can also raise development costs where contractors have escalation clauses, or where contractors start to build-in a higher margin to allow for irregular payments. Clearly some rethinking of financial policy is necessary in Saudi Arabia, if the lack of monetary instruments is not to have real development costs.

Rodney Wilson

United Arab Emirates

Despite competition for funds optimism returns

Banking in the United Arab Emirates faces a difficult year, but the outcome could be an increase and more profitable level of activity for both the local banks and foreign institutions. With oil revenues continuing to increase rapidly and big new investment being made in hydrocarbons, optimism is gradually returning despite the continued outflow of dirhams and the competition for funds.

The principal change this year is the establishment of a Central Bank to replace the UAE Currency Board, which has acted as the country's central bank since its foundation in 1973, two years after the UAE achieved independence. Starved of funds despite the emirates' oil wealth, and beset with political conflict, the Currency Board was never able effectively to regulate banking activity or, equally important, to control the money supply. The number of money changers and small banks, many of them simply adjuncts of the big merchant houses, grew alarmingly, precipitating a banking crisis in mid-1977.

Only after the International Monetary Fund stepped in and recommended the establishment of a central bank did the crisis recede. But lack of agreement between the country's seven rulers, who make up the emirates' Supreme Council, forestalled its establishment until last December when a board of directors headed by Sheikh Sultan bin Muhammad al Nahayan (an Abu Dhabi who also serves as Chamberlain of the President's Court) was appointed. On January 1 it formally replaced the Currency Board and it is now preparing a series of regulations which are expected to be announced within the next few months.

High on the list are measures to stop the proliferation of banks in the country, which at last count totalled 52. (The population of the emirates is only about one million, even if the hundreds of thousands of foreign workers are included.) Observers expect the Central Bank to introduce regulations concerning the amount of paid-up capital a locally incorporated bank will be re-

quired to have, and to adopt other measures aimed at encouraging the recapitalization, or even merger, of some of the smaller entities.

Already the Bank of the Arab Coast, which is based in Ras al Khaymah but whose shareholders include a number of prominent Kuwaiti merchants, has announced plans to expand its capital from a modest 5m dirhams (\$1.35m) to 100m dirhams (\$27m). New directors will be added to the board to replace those of Credit Libanais and Banque Européenne pour le Moyen Orient, who have decided to withdraw. Several other banks in the emirates are said to be considering either recapitalization or extension of their shareholding.

However, the immediate task facing the Central Bank will be to stem the increasing drain of funds to more lucrative havens abroad. The outflow, which began in November, soon after Mr Reagan's electoral victory in the United States, shows no sign of easing. Predictions that United States interest rates will remain high, coupled with the lessened

attraction of Deutsche marks and other European currencies, are adding to the flight into dollars.

Late last year the Currency Board was forced to revalue the dirham against the dollar in an effort to reduce the yield which local investors received from their dollar deposits. Despite this, the outflow continued as American interest rates rose several percentage points above those prevailing in the UAE. Further action to reduce the size of dollar deposits, subject to local interest rate ceilings from 10m dirhams to 5m dirhams, and to raise interest rates on one-year deposits from 9.5 to 10.5 per cent, failed to stem the drain.

While figures for the fourth quarter are not yet available, many bankers fear they could be worse than those of last May when demand, time and savings deposits fell from 20,615m dirhams (\$5,570m) at the end of 1979 to 20,400m (\$5,510m) even though the country is estimated to have accrued some 21,200m dirhams (\$5,700m) in surplus revenues during the same period.

Now, with United States interest rates generally expected to remain high over the next few months, the Central Bank will face intense pressure to raise local interest rates and to revalue the dirham again. Yet by doing so the bank could incur the displeasure of some of the rulers of the smaller emirates which are known to be opposed to regulation of this kind, particularly when it comes so soon after the November round of increases.

Problems faced by the other banks concern the shift in government deposits that the establishment of the Central Bank entails. As part of the agreement on its formation, the rulers of the two wealthiest emirates, Sheikh Zayed of Abu Dhabi

and Sheikh Rashid of Dubai, are adding to their oil revenues in the Central Bank. While this will give the institution the financial muscle it needs to impose its new regulations, those local banks which had previously received a large share of the oil funds may find themselves looking to the private sector for business.

The National Bank of Abu Dhabi, which stands to be part of the accounts of the Abu Dhabi National Oil Company (ADNOC), and possibly of the Abu Dhabi Investment Authority as well, is planning to expand its operations abroad, particularly in London, where it already has two branches. The National Bank of Dubai, which has effectively operated as a government bank in the emirate, is expected to increase its activity in trade finance, while the Emirates Commercial Bank, one of the top five banks in the UAE, is looking for additional business in India and among the large number of foreign workers in the country who originate from India and Pakistan.

While some Western bankers are sceptical that the larger local institutions will be able to accommodate themselves to the changes, others point out that plans by ADNOC to embark on a \$10,000m development programme during the next five years and the continued increase in the country's oil revenues will provide plenty of business for all.

As Mr Ian Irving, the local manager for First National City Bank of Chicago, puts it: 'The year 1981 will be a good one for Abu Dhabi. Everyone connected with the oil industry—and that means most of the town in one way or another—will benefit. Bankers in other parts of the emirates are hoping that his optimism is justified, and that it will apply to the country as a whole as well as to Abu Dhabi.'

Pamela Ann Smith

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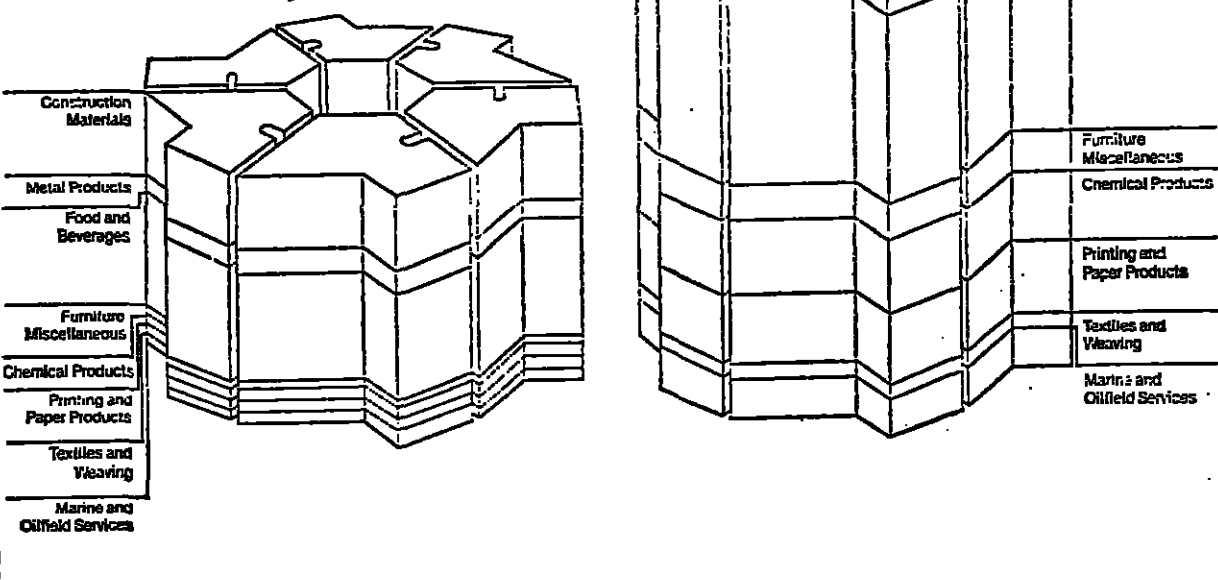
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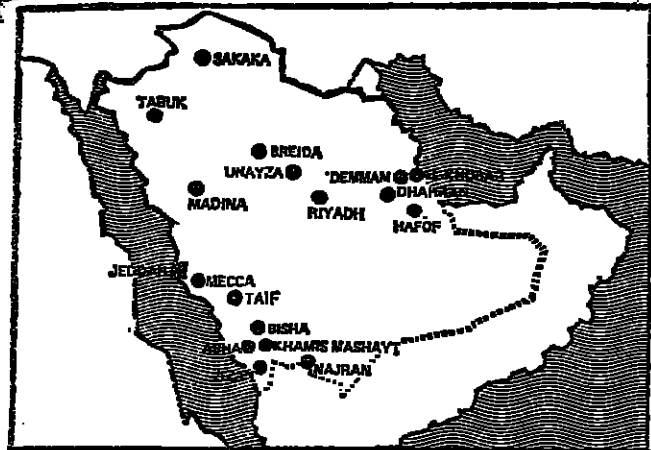
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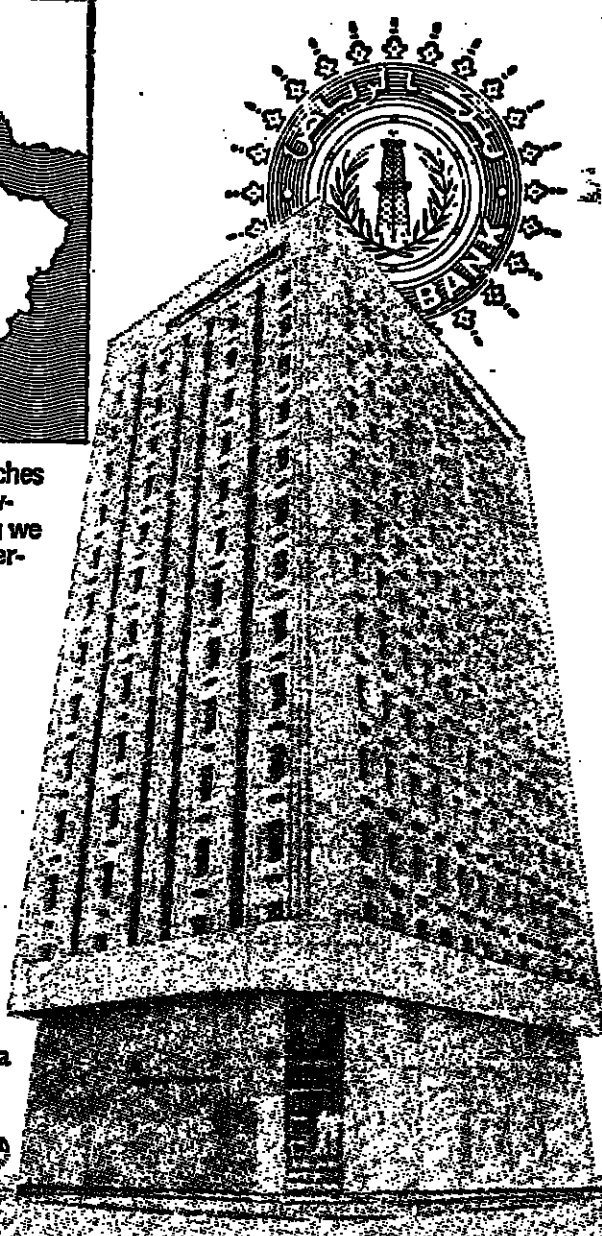
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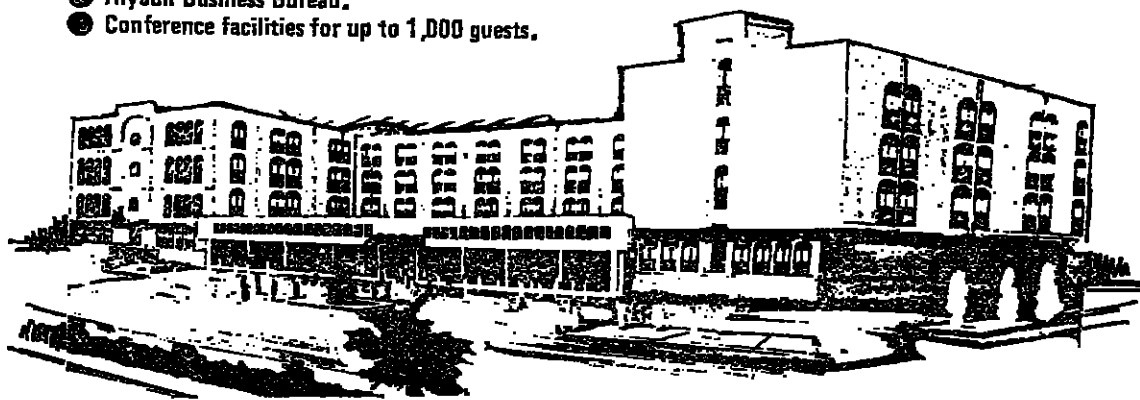
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Oman

Financial health has improved

It is 9 pm at Sib international airport on a Friday evening, the departure hour of the commuter run to Dubai. A group of bankers are talking quietly about the improved financial health of the Sultanate. Once "the sick man of the Gulf", Oman is now a good name, despite a hesitant start to development immediately after the accession of Sultan Qaboos in 1970.

The chief executive of a Dubai-based merchant bank remarks to his colleagues: "It is amazing how things have been turned round although in some parts of the country people are still living in a barter economy".

Omani currency, with its exotic almost Toy Town-sized banknotes, is now accepted throughout the Gulf by money exchangers, who used to treat it with suspicion. In remote country areas, especially the Musandam peninsula abutting the Straits of Hormuz, the Maria Theresa dollar is still used side by side with the Omani rial. Yet in 1981 with the country launched on a big development plan, the foundations of modern banking services have already been laid.

Omani bankers are unusually shy about how this was achieved and who should take the credit for the recovery. While it is true that some of the smaller banks among the 20-strong community continue to produce disappointing figures the overall strength of the market is unquestioned and, if anything, is increasing.

First to take the credit must be the "personalities", according to the London-based merchant banks, which have the best relationship with the Sultanate, stemming from Britain's long-standing ties with Oman. The Central Bank of Oman has been exceptionally well advised by particularly in the dollar but it also reflects National Bank's growing customer base. Mr Mohammad Shafi, its general manager, a Pakistani who came from Bank of Credit and Commerce International, says the bank's clients include companies such as Gulf Oil and Japan's C.Itoh.

It is rare for a bank manager in the Gulf to list customers but Mr Shafi clearly does it with pride since he feels an important message to put across is that the Omani banking system is capable of conducting transactions that historically were done for the Sultanate by the big names. National Bank of Oman has 35 operational branches including Cairo and there are long-term plans for an office in Alexandria.

It has assets totalling nearly \$300m, equivalent to about 20 per cent of the Sultanate's total commercial bank assets. Its chairman is Mr Haji Ali Sultan, a distinguished Omani businessman, who is president of the local chamber of commerce and industry and well known to visiting businessmen.

The banking community, apart from the seven locally incorporated banks which are all at least 51 per cent Omani owned, includes foreign banks with long standing relationships with the Sultanate. British Bank of the Middle East was for a time the currency-issuing authority before the central bank was established. Britain's Grindlays and the French Banque de Paris et des Pays Bas all retain strong customer loyalty, particularly among older Omanis.

It is known that some of the older, more conservative Omanis still decline to accept interest on their deposits, but the banking habit has at least caught on. Hoarding or "the money in the box under the bed" phenomenon is still common but becoming less prevalent.

Oman has also created a number of institutions which complement the commercial banks. To the great pleasure of the International Monetary Fund, according to an informed source, Oman has set up a development bank to provide loans for productive enterprises and has also opened a housing bank which acts

could be ascribed to high interest rates in early 1980. Other weather Gulf sea such as Qatar, lack such situations.

Oman's currency position has been a firm commitment to the dollar—the peg has been maintained at the rate since February 1971, which some observers consider is remarkable. Musa takes the view that despite fluctuations in value of the dollar, there is no point in "playing along with the exchange rate." Omani view is that if oil payments are in dollars and oil is almost the sole source of income, the relationship should stay same.

Nevertheless, there have been attempts to diversify the economy. These in themselves will make Oman more interesting to international financial community. Revenue from sales of refined copper will start coming in by 1979. The management of the project has been disturbed by what it considers to be the negative reaction some banks to the achievement so far. Mr Jack W. Oman Mining and Comp managing director, is insistent: "The copper smelter will operate at profit from the word go."

Ignorance about Oman the West is excusable. Until 1970 it was a country in the dark ages ruled by a despotic ruler. In only 11 years this has changed. Under the new five year plan launched on January 1, 1981, the spending \$21,347m is envisaged from oil revenues—an amount equal to about a third what Britain gets from the North Sea.

Oman is no longer a World Bank case study, unless success is analysed, nor is it in need any more for advice on demand management. The IMF, but the continuing financial health of Oman will depend upon its ability to keep control of its economic destiny. In recent talks about a Gulf security pact, Oman has taken a lead and appears to have a better rapport with its neighbours—the UAE and Saudi Arabia. To banks concerned with the Sultanate that can only be good news.

John Whelan
deputy editor
Middle East Economic Digest

North Yemen

Hoarded money needed for investment

In February, 1980, a number of changes were made in the Yemen Arab Republic's banking system. They were prompted after the International Monetary Fund had been called in to review a \$90m balance of payments deficit for the first six months of fiscal 1979-80.

The maximum interest rate on commercial bank loans was raised to 13.5 per cent and, in April, to 15.5 per cent. Deposit rates were also raised from between 6 per cent and 8 per cent to between 8.5 and 11.5 per cent, and later to between 10.5 and 13.5 per cent. The rates for long-term loans from specialized credit banks were raised from between 6 per cent and 7 per cent, to between 9.5 and 10.5 per cent, and later to between 11.5 and 12.5 per cent.

The year 1979 had proved to be a bad one financially. Deposits in current accounts fell from \$767m in mid-1978, to \$747m in mid-1979. A trend towards investing abroad was accentuated by the war with South Yemen in early 1979. This in turn hoarded defence spending, and that resulted in an 87 per cent rise in total government outlay for 1978-79.

Capital spending too was running well ahead of estimates. Furthermore, the flow of remittances from nationals abroad was showing signs of stagnation, because of a levelling off in the number of workers going abroad and a slowing down in the rate of their wage increases.

Remittances constitute the country's main source of income. In 1979, about 1,500,000 people—21 per cent of a population estimated at seven million—were working abroad, mainly in Saudi Arabia and other Gulf countries. Remittances from these workers valued at \$1,400m. The Yemeni worker, having first exchanged his wages for Yemeni rials, repatriates the money to his family or relatives. Most of the money is never banked and the cash income has resulted in a consumer-oriented society.

An International Labour Organization report, published in mid-1980, warned of the economic pitfalls that migrant labour can cause. Too often remittances are channelled into buying imported consumer goods rather than into productive investment. The Yemeni banks are now trying to attract traditionally hoarded cash into private investment, at the same time establishing a base of rials strong enough to assist its local financing programme.

The banks must now open more local branches able to offer a competitive service in relation to the money-changer and to take advantage of the hoarded remittances. In 1979 the Yemen Bank for Reconstruction and Development increased its total number of branches to 21, opening eight new ones in outlying towns such as Sada, Mocha, Amran, Bayt al-Faqih and Baillij.

The International Bank of Yemen, which opened on January 5, 1980, has been established with the specific aim of developing a branch network. Yemenis from rural areas are being trained to operate branches near their own homes.

Leading to the agricultural and industrial concerns will be an important part of banking operations. Agriculture is vital to the country's economy; it contributes more than one third of gross domestic product, and employs more than half the labour force. The Agricultural Credit Bank was set up in 1975 to provide inexpensive credit for agricultural needs, such as seeds and mechanical



Agriculture is vital to the economy and employs more than half the Yemeni labour force.

equipment. Part of a \$17m International Development Association loan towards the second stage of the southern uplands rural development scheme will enable the bank to extend its local operations in the region.

The Industrial Bank of Yemen, set up in 1976, approved loans of about 25m rials for 30 projects in 1978-79, the bank's first full year of lending operations. Most of these projects were by building material concerns. The sum of 65m rials has been estimated for development projects in 1980-81.

Loans and guarantees amounting to 46m rials were made by the Yemen Bank for Reconstruction and Development in 1979, an increase of 10m rials on the previous year's figure.

In 1977 the Housing Credit Bank was set up and is now seeking foreign aid in trying to overcome the acute shortage of housing for low-income groups. The channelling of foreign aid into housing is increasingly important as the second five-year plan (1982-86) draws close. Mr Hasan Maki, Deputy Premier for Financial and Economic Affairs, has said: "We need between \$10,000m and \$20,000m in the next 10 years to complete our basic infrastructure and to enable us to become self-sufficient."

As well as overseas aid, the participation of foreign banks is sought. The Industrial Bank is making intense efforts to gain the confidence of international banks, particularly for cofinancing projects needing capital beyond its own financial resources.

The Government hopes that foreign banks will play a bigger role in financing agricultural needs, such as seeds and mechanical

both in the private and public sectors. Mr Mohammad Hizam al-Shohadi, the Economy Minister, has said that Yemen will cooperate in the activities of all foreign banks in the country. Interest has recently been shown by Australian, British, United States and Japanese banks, whose officials visited the country in February to discuss new projects with the Central Bank.

Foreign banks with branches already in the country include Citibank, British Bank of the Middle East, Arab Bank, Bank of Credit and Commerce International, Banque de l'Indochine et de Suez, Habib Bank, National Bank of Abu Dhabi and United Bank of Pakistan.

Kuwait, one of the largest investors in the country, is represented by the Yemen Kuwait Bank for Trade and Investment, set up in Sanaa in 1978. Investment in real estate and development projects—especially hotels and luxury housing—is handled by the Yemeni Kuwait Real Estate Development Company, established in 1977.

Agreement was reached in December to set up a branch of Iraq's Rafidain Bank in Sanaa. This would help coordinate the activities of the Iraqi projects office—now overseeing the construction of schools, roads and hospitals—and supervise the disbursement of a \$300m Iraqi loan agreed in 1979.

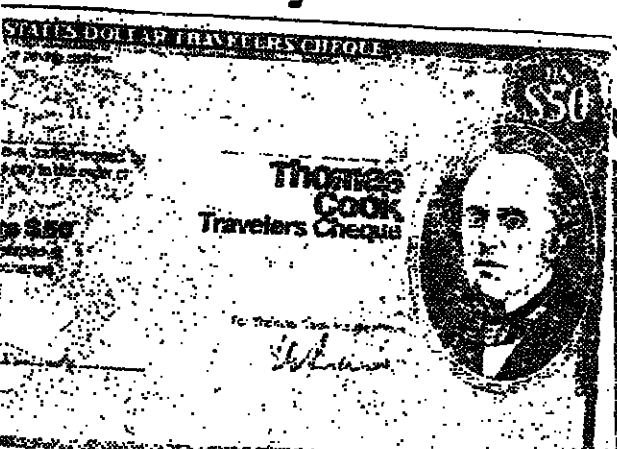
IMF figures for the period between March and August, 1980, show an increase in commercial bank deposits from 2,015m rials to 2,191m rials, against a background of growth in the money supply from 8,492m rials to 9,181m rials. Yemeni bankers will hope that the attempts made to expand the banking sector will succeed in providing the necessary base from which to achieve long-term objectives.

Jonathan Crusoe
Middle East Economic Digest

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Lebanon

Economy resilient despite trade deficit

Beirut's obituary as a financial centre has been written many times and in different languages. Japan's Bank of Tokyo, for example, says of its departure simply that "Operations are at present conducted from Manama, Bahrain". The story is similar, although the direction of the retreat from Beirut differs. From banks as varied as West Germany's Commerzbank and Morocco's Banque Marocaine du Commerce Extérieur. Those who take pride in recalling that they have shared faithful to Beirut despite the ravages of civil war and the subsequent de facto partition of the country are almost all running reduced operations.

If romance—the way banks announce their deals to the delight of advertisement directors working for the financial press—were taken as a yardstick then the mantle has now passed to Bahrain as the Arab world's leading marketplace. This might be disputed in Kuwait and claims can be argued for the rise of Amman and Cairo, but most observers agree that Beirut is unlikely to recover its pre-war leadership.

Indeed such a change would be severely hampered by the destruction of Beirut's commercial centre and the division of the capital into sectors controlled by rival leftist and rightist militia. It would be "like expecting the City of London to re-emerge in Belfast", one London merchant banker says.

At the same time Beirut's is not altogether a story of financial gloom. The ebullient Mr Assad Sawaya, Bankers Association president, the most frequently quoted spokesman for the local banking community, is

only one of many Lebanese financiers who argue that things are not as black as they are painted. They almost all point to the resilience in the Lebanese economy, largely the product of "between \$100m and \$150m a month in remittance payments from Lebanon in the Gulf but also in Europe, West Africa, Latin America and Australia. This support has kept the balance of payments in surplus despite record deficits on trade and near anarchy in collection of customs receipts.

Remittances from the Lebanese, institutional and other white collar workers are supplemented by the earnings overseas of a number of Lebanese-owned and managed companies. It is doubtful, for example, whether Saudi Arabia has a contractor with a track record as Consolidated Contractors International Company which is still Lebanese despite having moved its headquarters to Athens. The most impressive performance has been from the two of the MFA and TMA, the cargo carrier, which are continuing to fly in the black despite war and steep fuel cost increases.

Total deposits in the banking sector, with allowances for movement in the Lebanese pound, were an encouraging \$5,300m in June 1980 compared with just over \$4,000m at the end of 1978 and \$2,290m at the end of 1974. In terms of what is visible in the banking system this is actually a stronger position than that of some of the smaller Gulf states and points to the continuing worry of what to do with the money, since investment in productive enterprises is almost ruled out by the continuing mayhem of civil war, the eruption of Gaddafi-like feuds between rival militia chieftains and in the south the Israeli occupa-

tion of a cordon sanitaire where the United Nations observers are helpless to outlaw the rule of the Uzi. In the circumstances it is hardly surprising that much of the remitted wealth has gone into real estate or speculation in foreign currencies, particularly the dollar. By contrast with 1978, when Lebanese banks were in the forefront of a drive to attract the surplus being generated by the oil states of the Gulf, 1981 has seen more evidence of withdrawal. Credit Libanais, for example, which is owned by the Kahly (Kassab) family, declined to take part in the recapitalisation of a LAF bank in January, leaving the door open to Kuwaiti investors to join the board of directors of the new Bank of the Arab Coast based in Ras al Khaima.

Lebanon has suffered more than many other neighbouring countries by flight of funds from the dollar. In 1980 interest rates on dollar accounts rose from 10 to 15 to 20 per cent and 9 to 10 per cent. It has not always been easy for Lebanon to maintain a free exchange rate particularly when the Lebanese pound comes under pressure from panic flight of capital, but has monetary authorities have earned praise for maintaining exchange freedom from the International Monetary Fund among others. "Arguably at that time it would be the end of Beirut altogether as a financial centre, leaving the gunmen free to loot the banks", one expatriate Lebanese banker says.

Lebanese banks received a windfall from reaction to the Iran-Iraq war as nervous expatriates remitted extra money home. Their main problem is surplus liquidity some of which has been absorbed by the central monetary authorities issuing short-

term, mainly three-month treasury bills. In the first half of 1980, the equivalent in Lebanese pounds of just over \$300m was issued. There have also been some innovations. The draft constitution of a Lebanese finance company to act as a discount house has now been approved by Banque du Liban (central bank) and about 30 banks agreed to subscribe to its starting capital of \$2.8m. But was this a sign of returning confidence or just spare money needing to find a home?

Participation in the International Finance Corporation (IFC) was thought likely in the early stages but the IFC is now said to be "distancing itself from the scheme". That is not a sign perhaps that Lebanon no longer has it easy to get an international vote of confidence in its economy.

More successful was the arrangement for the first time in August, 1980, of a syndicated loan with interest based for the first time on the Beirut inter-bank offered rate. J. Henry Schuster & Company, the Beirut subsidiary of the Schroder Group of London, prepared documentation and was joint lead manager for the \$8.8m loan to build a shopping complex in east Beirut. Site preparation started just before civil war broke out in 1974 and during the war the plans were shelved. It remains to be seen whether the inter-bank rate which at the time the loan was raised was about 8 per cent will be used since the banks have the option of converting to the fixed rate of 9 per cent. Like everything else when repayment starts in December, 1982, it will involve a judgment about the political as well as economic future of Lebanon.

J.W.

Jordan

International interest in Amman's stock exchange

The new international financial centre in the Arab world is Amman, capital of Jordan. Solid international banks are busy negotiating office leases and looking into possible partnerships with Jordanian investment houses.

At the most recent opening there by Manufacturers Hanover Trust on February 7, Mr Harry Taylor, the vice-chairman, said: "We chose Amman as the best place for an office because of our close ties with Jordanian investors, because of the dramatic growth the city has seen in the last decade and, of course, because of the economic and political stability which has characterised Jordan for the past 30 years."

Since the relaxation of exchange controls in May, 1978, and June, 1979, Jordan's banking and financial sector has developed steadily, but some time ago there has been speculation about the Amman becoming "a new Beirut". The statistics are good. Since 1973 there has been a marked increase in foreign exchange earnings, largely because of remittances from The Gulf where Jordanian engineers, doctors and other professionals are in demand. In 1973 the country's foreign exchange earnings were \$254.7m, but by September 1980, they had swollen to \$1,194.2m.

During the same period commercial banks' foreign assets rose to \$1,122.3m from \$636m, and their demand, savings and time deposits increased to \$1,803.87m from \$248m. The choice of 1973 as a yardstick is because that was the year the Gulf states' oil wealth began greatly to attract Jordanian involvement in their economies.

In 1979 the central bank imposed effective but not overbearing credit controls. The result was that minimum reserve requirements of com-

mercial banks were raised by 1 per cent to 16 per cent for demand deposits, and to 13 per cent for savings and time deposits. During this period, commercial bank credits rose by a spectacular 29 per cent on the 1978 results, and reached \$1,315m. Commercial bank deposits, too, improved dramatically—up 44 per cent to \$1,778m.

The controls imposed by the central bank were successful, and liquidity growth was sustained at about 25 per cent a year. It is against this background of sustained growth, economic and political stability, and interest in Jordan, that foreign banks have come knocking on Amman's door.

The most recent newcomers are France's Banque Nationale de Paris, Egypt's Arab African International Bank and the National Bank of Abu Dhabi. Another newcomer, First National Bank of Minneapolis, gained a foothold in the Arab world in 1979 when its office in Jordan was opened. It joins the big United States banks there. Chase Manhattan is entering its fifth year, and one of its subsidiaries, Chase Manhattan Overseas Corporation, is also doing business, as is Citicorp.

Other foreign banks are also well established among them British, American, Swiss and Japanese. British banks are Citibank, which has 12 local branches, and the British Bank of the Middle East, which has four.

Among the domestic commercial banks, the most spectacular success story has been the Arab Bank, which celebrated its thirtieth birthday last year. The bank ranks about fifth in the top 100 commercial Arab banks. It has nine local branches and 36 branches in Arab countries and Western Europe. Its newest office

will be in New York, and will open this year. The bank has an international record that any institution would be proud of, and is particularly busy in syndicated loans which reached about \$49m at the end of 1979. It also has a strong network of subsidiaries in Switzerland, Nigeria, Morocco and Britain, and shareholdings in Jordanian, Hongkong, French, Saudi, Bahraini, West German and Luxembourg banks and institutions.

Other domestic banks also have an important role, and an old international level, include the Bank of Jordan, Cairo Amman Bank, Jordan Gulf Bank, Jordan Kuwait Bank, Jordan National Bank, Jordan Arab Bank, and the Jordanian Commercial Bank. In the specialised banking sector, Arab Finance Corporation (Jordan) is the most recent. It is an offshoot of the Luxembourg-

based Arab Finance Corporation, which is owned by Kuwaiti, Lebanese, Japanese, Saudi and other Arab and international financial organisations. But what perhaps best typifies the growing international interest in Jordan is its stock exchange, the Amman Financial Market. It recorded a trading volume of \$22.8m in 1979, an increase of 182 per cent on 1978—its first year of trading. By early 1980, monthly trading volume was running higher than the entire first year's turnover. Industrial companies in 1979 accounted for 42.6 per cent of the leading shares, and 43 per cent of the volume came from financial institutions.

Anna Krajewska
Middle East Economic Digest

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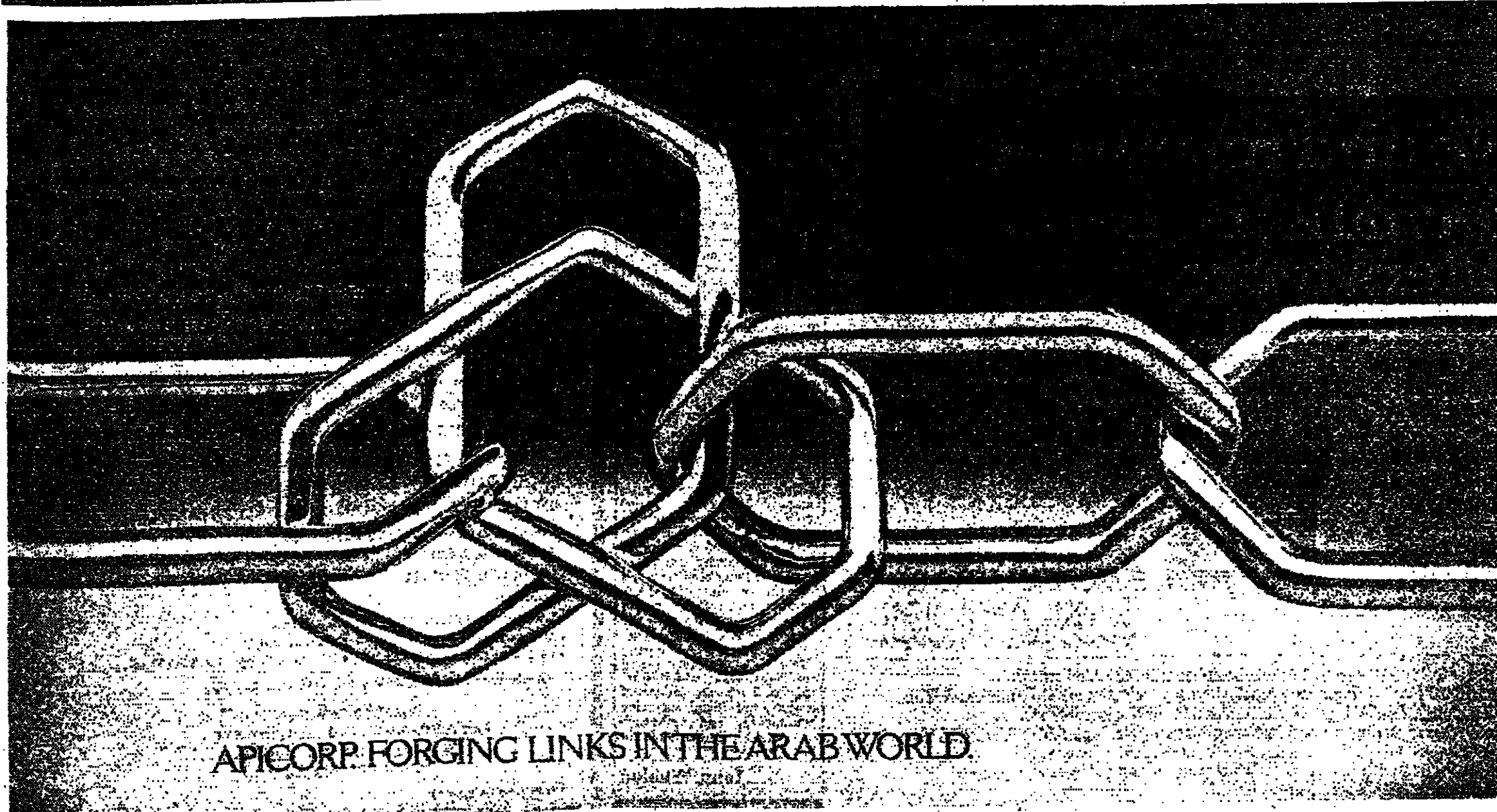
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Pointer to the growing advancement of Cairo as a marketplace

Four Egyptian banks are now feeding in money rates to Reuters Monitor, the most modern system through which banks deal with each other. It is a development started only in November 1980 which points to the growing advancement of Cairo as a marketplace.

Only 18 months ago most Cairo bankers who live daily with a telephone system which is among the most frustrating in the world would have thought such a development impossible. "Like building the pyramids in a day", the adviser to a large United States bank says.

Reuters' arrival suggests a theme. The Egyptian banking sector will become much more international in the 1980s with the emphasis on investment, development and growth. Despite ruptures in the Nasser era, when some foreign banks declared they would never return, the present atmosphere of trust

between Egyptian and foreign banks is "second to none", in the words of a London based merchant bank.

Much of this has to do with Egypt's improved balance of payments position, growing oil revenues and arguably the breathing space resulting from the bilateral peace with Israel. The rest of it has to do with the strength of the system at ground floor level.

The present system consists of the central bank, four state-owned public sector commercial banks—Bank of Alexandria, Banque du Caire, Banque Misr and National Bank of Egypt; 20 joint-venture commercial and investment banks; 54 branches and representative offices of foreign banks; seven specialized banks and 23 specialized financial institutions. Since 1974, President Sadat's "open door" policy of liberalizing the system has seen a steady in-

crease in the number of banks wishing to establish themselves in the country or to do business with their Egyptian counterparts.

This policy of liberalization during the past seven years has resulted in rapid growth in the banking sector. For example, in terms of international liquidity, commercial banks' foreign assets have increased to \$3,372m in July 1980 from \$684m in 1974. The central bank's foreign assets have risen from \$200.9m to about \$1,211m during that period while commercial banks' deposits in 1980 stood at about \$7,330 as compared to \$1,523m in 1974. However, the big four public sector banks still tend to dominate the system although they are certainly outnumbered by the private sector.

Of the big four state-owned banks, National Bank of Egypt remains the largest and wealthiest. In 1979 its

total assets/liabilities stood at about \$4,200m. It ranks as about the tenth biggest bank in the Arab world in terms of its assets/liabilities and from 1971 to 1978 had total monopoly on all foreign trade.

Banque du Caire, whose assets/liabilities were \$2,136m in 1979, concentrates on the service and construction sector of the country; Banque Misr, which has one of the largest branch networks, specializes in domestic trade and Bank of Alexandria retains its interests in the industrial public sector.

The big four have 50 per cent or 51 per cent stakes in important private sector joint venture commercial banks. Banque du Caire has 51 per cent in Banque du Caire et de Paris and 50 per cent in Cairo Barclays Inter-

national Bank. Its foreign branch in Saudi Arabia was listed in 1964, is owned by Kuwait, Egypt, Iraq's state-owned Rafidain Bank,

Bank. Banque du Caire has 40 per cent of the shares. It also has a major stake in the Cairo Far East Bank in Egypt. National Bank of Egypt has 51 per cent in both Chase National Bank of Egypt and National Société Générale Bank. Bank of Alexandria has 51 per cent in European American Bank, in which the remaining 49 per cent is held by American Express International Banking Corporation. Banque Misr has 47 per cent in Misr International Bank and 51 per cent in Misr Roman Bank. Arab Land Bank, established in 1947, is a joint venture between the governments of Egypt and Jordan.

The private sector houses two important international banks—Arab African International Bank (AAIB) and Arab International Bank (AIB). The former, established in 1964, is owned by Japanese Finance, UBAF, Arab American Bank, the Industrial Bank of Jordan, the Housing Bank of Jordan

and Tunisia's Compagnie Financière Immobilière et Touristique.

Arab International Bank, which is owned by the governments of Egypt, Libya, UAE, Oman and Qatar, has been trading since 1971. It has stakes in Egypt's Société Arabe et Internationale de Banque and in European Arab Bank (Brussels), in Belgium. Both AAIB and AIB predate Egypt's Law No 47 which opened the doors to liberalization, and thus technically do not come under the Egyptian courts' jurisdiction. They have also not been affected by sanctions resulting since the severance between Egypt and the Arab League after the Camp David accord and retain their Arab government shareholders.

The remaining private sector banks which have been formed in partnership with foreign banks include: Alexandria Kuwait International Bank, Misr America

International Bank, Misr Arab Development Bank, Misr Roman Bank, American Express Middle East Development Company, Société Arabe et Internationale de Banque, and Suez Canal Bank. Other private commercial banks include the newly established Al Watany Bank of Egypt, Delta International Bank and Mohandes Bank.

Islamic Banks have also been attracted to the sector; Dubai Islamic Bank has a licence to operate in Cairo and Faisal Islamic Bank of Egypt—a joint venture with Saudi Arabia—was established in 1978. Another Islamic bank, Nasser Social Bank, was established in 1972 and the Islamic Banks International Association has its head office in Cairo, with a foreign branch in Saudi Arabia.

Foreign commercial and investment banks from 19 countries operate in the country. The United States

has most—nine: America Express, Bank of America, Crocker National Bank, Citic Bank, Chemical Bank, Chase Manhattan, Industrious International Bank of Rhode Island, International Finance Corporation and Manufacturers Hanover Trust.

France is next with seven: Banque de l'Union Européenne, Banque Nationale de Paris, Crédit Commercial de France, Crédit Industriel et Commercial, Crédit Lyonnais, Société Générale and UBAF.

West Germany has four: Commerzbank, Deutsch Bank, Dresdner Bank and Richard Daus and Company. The United Kingdom has three: Lloyds Bank International, Midland Bank and Morgan Grenfell. Switzerland also has three: Habib Bank AG Zurich, Crédi Suisse and Swiss Bank Corporation.

Anna Krajewski

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A desirable credit risk

The American hostage crisis and the role of the Banque Centrale d'Algérie (central bank) has enhanced the prestige of Algeria in international banking. As honest brokers exhibiting considerable financial skill in the complex transaction necessary to turn the American prisoners into "releesés" the Algerians have confirmed the status already established by the state banks and the major borrower Sonatrach—the hydrocarbons entity.

The benefit for the Algerians, particularly in goodwill from the United States, is certain to be reflected in more attention from the Export-Import Bank of the United States which deals with export credit and insurance guarantees. Already, under President Carter, Eximbank had in Algeria its biggest commitment in Africa north of the Limpopo.

This boost in Algeria's prestige comes when foreign banks in other respects have been experiencing frustration with the Algerian banking system. This may reflect some difference in philosophy—Algeria is, after all, in the socialist Arab camp and not well disposed by nature to the capitalist West. But specifically the difficulties recently have been delays in letters of credit, growing insurance fraud, and payments delays of up to three months on capital projects. The excellent response by the Algerians to a spouse by the Algerians to the banking documentation on contracts for prefabricated housing after the recent earthquake was out of the ordinary.

Of the three Maghreb countries—Algeria, Morocco and Tunisia—Algeria alone is now regarded by most lenders as a desirable credit risk. Lenders are, in fact, frustrated because Algeria has dropped right down the table of borrowers. It is thought in London that the Algerian state banks have large undrawn funds which were arranged over the past two years, and have no real need for new funds; though private Moroccan interests institutions such as the Banque Algérienne de Développement (BAD) whose role is to fund capital projects, are unlikely to stay out of the market for ever.

With the 1980-84 five-year plan under the firm hand of President Chérif now moving ahead, it is hard to believe the planners will resist for long the temptation of going to the market, even though the plan obliges them to use a combination of soft loans from Arab and international institutions and export credit. Foreign exchange reserves are indeed high at about \$3,300m, but external debt is

estimated at \$19,000m and needs to be reduced.

It is this balancing act which has probably inhibited the Algerians from tapping the market for 10-year money, even when margins could be tight.

Morocco's problems by contrast are the opposite: massive proposals for funds in late 1980 by the Office Cherifien des Phosphates (OCP), which handles phosphate exports, got a lukewarm response in the market. London bankers said the amount at \$250m was too big, and the margins were too tight. The transaction was completed just before Christmas at \$170m after some heart searching by the large management group drawn from 10 countries.

OCP has recently had sharp criticism from a World Bank report on Morocco which takes it to task for alleged "lack of long term planning". The report, which is the World Bank's first on the kingdom since 1965, is critical of a wide range of matters, but on one point at least it can be up-dated. On today's figures Morocco's hard currency reserves have risen to \$700m from \$270m in September.

There is certainly no lack of interest in lending to Morocco, particularly for short-term facilities. Al Saudi and the Saudi-owned to merchant bank based in Paris, is in the market with a \$140m one-year line of credit for the Moroccan refining entity Samir and, although the facility does not carry any specific guarantee, the response was so favourable that the amount was raised from the original request for \$100m.

Equally, Morocco's Banque Nationale pour le Développement Economique had a good response to a proposal for 30m Swiss francs, over one year, under a guarantee by the kingdom of Morocco. The bank made the most of its list of shareholders, including the Moroccan Government, Moroccan banks, need for new funds; though private Moroccan interests institutions such as the Banque Algérienne de Développement (BAD) whose role is to fund capital projects, are unlikely to stay out of the market for ever.

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John Whelan

North Africa

A desirable credit risk



The docks at Sousse, in Tunisia.

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Libya

Yugoslavia is the privileged foreigner

Amid the upheavals in Libya's economic and social life brought about by revolutionary change in the past few years, two vital sectors of the economy have remained fairly free of interference—oil and banking. The banks and the oil companies were conveniently bypassed by workers who took control of all other businesses in 1978, in line with Colonel Muammar Gaddafi's call for Libyans to become "partners, not wage workers".

Despite almost the eradication of the private sector since 1978, the five domestic banks are flourishing. One of the largest is said to have recorded profits of about \$67m in 1980.

The most important clients are the state corporations. One example is the General Corporation for Iron and Steel Projects which is building a steel works at Misurata costing more than \$1,000m. Finance for the scheme is allocated in a plan. The allocation is picked up by the Heavy Industry Secretariat (Ministry) which passes it on to the corporation and into the bank. Much of the banks' activities consists of extending temporary overdrafts and opening letters of credits for such corporations.

Interest rates are fixed at 7.5 per cent for unsecured loans. Secured loans can carry a 7 per cent rate. To attract savings accounts, the banks will pay 10 per cent interest.

Largest of the five domestic banks is the National Commercial Bank, capitalised at \$8.4m. It has 23 local branches and shares in the Luxembourg-based European Arab Holding and European Arab Bank in Brussels. Wahda Bank, the only Libyan bank with a head office in Benghazi, is a shareholder in Banque Arabe Internationale d'Investissement (BAII) in Paris and Compagnie Arabe & Internationale d'Investissement (CAII) in Luxembourg. The other domestic commercial banks are Sahara Bank, Umma Bank and Jamahiriya Bank.

All the banks were nationalised soon after Colonel Gaddafi attained power on September 1, 1969. At roughly the same time, the 11 foreign banks in Libya, mostly British, withdrew their operations. The only foreign bank allowed to open branches is Yugoslavia's Jugobanka which has a representative office in Tripoli.

Because all the banks' accounts have to be audited

by the slow state audit department, the most recent figures available are those for the fourth quarter of 1978. These show the total assets and liabilities of the banking sector at \$4,200m—7 per cent more than in 1977.

The chairman and deputy chairman of Umma Bank, Wahda Bank and Jamahiriya Bank were removed from their posts in mid-1980. Some of them were arrested in that year's anti-corruption drive and charged with "economic crimes". The drive is said to have netted about 1,800 people, mostly government officials alleged to have taken bribes from foreign companies. Most members of the banks' board of directors are appointed by the Central Bank of Libya. The board of each bank also includes two representatives elected by the bank's trade union.

Two non-deposit taking banks—Agricultural Bank and Industrial & Real Estate Bank of Libya—act as a channel for state investment in farming and small-scale industrial schemes. Industrial & Real Estate Bank had outstanding loans and advances totalling \$154.5m in 1978 and Agricultural Bank \$42.9m.

A third non-deposit-taking bank, the Real Estate Investment & Savings Bank, was set up in early 1981, with a \$234m capital to provide interest-free housing loans to low-income families.

An important innovation in the banking sector was the formation in 1972 of the Libyan Arab Foreign Bank (LAFB) which operates exclusively in the international market. Capitalized at \$84.4m it is generally recognized as one of the leading Arab banks. Its formation effectively ended all further opportunities for the domestic banks to invest in joint ventures abroad.

Since early 1980 LAFB has been chaired by Abu Bakr al-Sherif, a former economy secretary (minister). The bank has no overseas branches but is said to be close to setting up a representative office in a major Western financial centre.

LAFB's total balance sheet in 1979 was \$2,585m—12 per cent more than the 1978 figure of \$2,312.3m. Pre-tax profits rose by 48 per cent in the same period from \$31.7m in 1978 to \$47m.

In 1980 the bank participated in 20 international loans. It was lead manager for three, including a \$1,500m loan to Italy's state-owned Ente Nazionale Idrocarburi (ENI) and a \$65m loan to the Paris-based Union des Banques Arabes & Françaises (UBAF). It was also co-lead manager for a \$200m loan to Banque Nationale de Yougoslavie. The bank managed three loans: \$300m to Argentina's Yacimientos Petroliferos Fiscales; \$50m to the Bank of Tokyo and \$200m to the Central Bank of Brazil. Among the six loans for which LAFB was co-manager was a \$50m loan to the European Coal and Steel Community.

LAFB has also been involved in overseas joint ventures, such as the Arab Helvetic Bank in Athens, and joint holding companies, particularly in Africa. The responsibility for joint companies is to be transferred to a foreign investment company soon to be set up by the Central Bank.

A prominent foreign bank in which Libya has a stake is Arab Banking Corporation, the largest offshore unit in Bahrain, with a capital of \$1,000m. Set up in 1980 with Kuwait and Abu Dhabi, ABC is headed by Abdullah al-Saudi, the former chairman of LAFB. Another foreign venture is Arab International Bank, capitalized at \$100m of which Libya owns 28.7 per cent. Despite the bad relations with Egypt, the Egyptian Government is a shareholder in the bank and the three Libyan directors of the bank are based in Cairo. Much of the credit for non-interference in the banking sector is said to lie with a senior Libyan aide, Staff-Major Abdussalam Jaloud.

Closely monitoring the banking system is the Central Bank which reported total assets and liabilities of \$15,561m in October 1980.

Aid

Opec gives much more than rich nations

In times of deepening recession and big public spending cuts, Western governments can reduce foreign aid commitments with little opposition at home. Pressure groups are alert to what domestic cuts mean in lost jobs and wages, whereas big trimmings of foreign aid are unlikely to upset too many voters.

Although there are aid lobbies in many donor countries, it would be misleading to assume that they have sufficient power, or wide enough public appeal, to enable them to enforce their views.

Only a few weeks after moving into the White House, President Reagan announced that he would cut the 1981-82 United States foreign aid bill by at least

one tenth despite strong opposition from Mr Alexander Haig, the Secretary of State.

Another donor, the United Kingdom, last year decided to cut aid by 16 per cent in real terms in the four fiscal years to April 1984.

While the prospects for restoring Western aid, let alone increasing it, look grim, governments in the West and Japan are now under increasing pressure from the Brundage commission whose report, *North-South: a programme for survival*, published almost exactly a year ago, says industrial nations must recognize that their economic future, and even their survival, can no longer be separated from those of the Third World nations. The report, which has produced a wide and often heated debate in the West, emphasizes that it is no longer possible to maintain a world economy that has long been working to the Third World's disadvantage.

Unlike its predecessor, the Pearson report *Partners in Development* (1969), Brandt's report says foreign aid alone would not resolve the pressing problems of many Third World nations and proposes several more specific initiatives to overcome these problems and to create a better and integrated world economy.

The commission says that although the West has been providing large sums in absolute terms, its aid still stands at only half the 0.7 per cent of gross national product which has been the United Nations' target for the past decade. It now proposes that this target be restated by 1985 and should reach 1 per cent by the turn of the century.

Such rates, seen by many Western politicians and bankers as highly optimistic, have long been surpassed by many Arab countries, some of which, according to OECD figures, have recently contributed as much as 16 per cent of gnp. Some Arab states have been giving even in absolute terms, much more than the richest countries in industrial Europe.

Considering that Arab aid is almost entirely financed from a non-renewable income (from sales of depleted oil and gas stocks), their record looks even more impressive. Opec countries are frequently criticized in the West for not giving enough aid; but, apart from the record, what many critics ignore is that these countries are developing nations themselves, with a combined gnp not much greater than that of Italy, for example.

Opec aid, which is almost all Arab, has in recent years

been at the level of about 3 per cent of gnp. That is about 10 times the combined rate for industrial nations, with whom many think the responsibility for transferring wealth to developing nations should lie.

While a substantial part of industrial nations' aid goes to countries not usually considered as developing ones (such as Israel, Greece, Spain, Portugal and other south European states), the bulk of Arab aid goes to the least-developed countries in Africa, Asia and Latin America. Besides bilateral aid, several Arab countries have also been channelling huge sums into world and regional agencies such as the World Bank, the International Fund for Agricultural Development (IFAD) and the International Monetary Fund.

No donor can claim that most aid, whether coming from Arab states, the West, the East or even from agencies such as the World Bank and the IMF, is entirely free from some political motives. Most recipients, however, are not attached.

This is simply because Arab countries, as part of the Third World themselves, cannot supply equipment or technology to recipients and therefore there is almost no return of disbursed funds to the donors. Some Arab aid agencies now claim that they are indirectly subsidizing the West and Japan from which most recipients buy capital goods for projects financed by these agencies.

The Opec Fund for International Development (OFID), set up in Vienna by the organization's 13 members in 1976, had up to December 1980 committed \$1,490m, of which \$504m was in 211 loans to 76 developing nations, all outside Opec.

Opec finance ministers meeting in Vienna on January 28 agreed to double to \$500m the amount of disbursements in 1981 and to raise this figure to \$700m next year. The fund's capital has been increased several times and now stands at \$4,000m.

A few days before the Vienna meeting, at the Taif Islamic conference attended by 42 states, Arab oil exporting countries announced that they would allocate an additional \$3,000m to help poorer Muslim states worldwide. Besides OFID, whose resources are almost all Arab, several regional agencies have been set up in the past eight years. Most of their disbursements go to non-Arab states.

Atef Sultan



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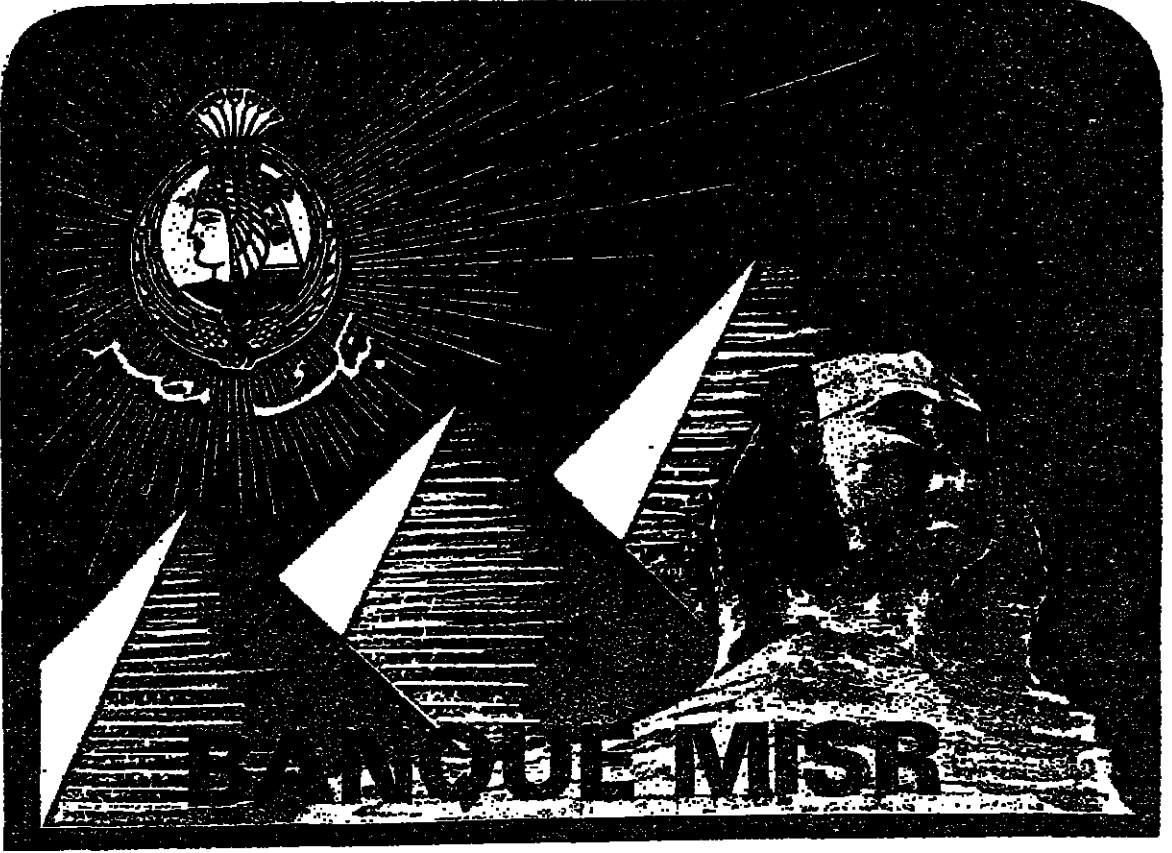
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BALANCE SHEET AS AT DECEMBER 31, 1981

In US Dollars	1979	1980	1979	1980
Assets			Liabilities	
Cash on hand and in Banks	33,274,797	72,006,540	Deposits	82,026,473 161,902,133
Portfolio Securities			Cash	8,411,603 10,072,863
Government Bonds	418,667	1,016,667	Collaterals	872 257 2,675,080
Local Shares and Foreign Bonds	1,808,357	1,530,853	Provisions	1,013,520 1,812,993
Discounted Bills	16,395,623	25,897,763	Other Liabilities	
Overdrafts	44,845,837	76,228,657	Shareholders' Equity	
Accounts	1,280,000	4,188,700	Capital	10,000,000 10,000,000
Syndicated Loans	3,243,673	4,156,732	Legal Reserves	92,288 328,830
Net fixed Assets	1,503,067	2,399,610	Other Reserves and Retained Earnings	351,880 632,803
Other Assets				
Total Assets	102,768,021	187,425,522	Total Liabilities	102,768,021 187,425,522
Contra Accounts				
L/C's	32,722,557	32,659,310		
L/G's	23,420,743	42,081,680		
Other Liabilities	2,624,240	16,219,923		

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Special Correspondents of 'The Times' present profiles of three major Middle Eastern banking organizations

Branching draws scattered market

From its headquarters in the glittering black Khasboggi building on Riyadh's airport road, the Saudi American Bank is directing the initial phases of an expansion programme. The first concrete signs of its plans to increase services in the commercial centres emerged in February, 1981, with the opening of a new branch in Jiddah; and by the end of the year Saudi American will have four branches in both Riyadh and Jiddah, and possibly one each in Al Khubar in the Eastern Province, Abha in the south-west, and Buraidah in central Arabia.

Forming branches is the necessary first step in winning a bigger share of the Saudi banking market scattered over a wide area. For Saudi American, this also presents an opportunity to make up lost ground; it was the last of seven new Saudi-controlled banks established since 1975. In Saudi American's case it entailed issuing shares in the Saudi operations of Citibank of the United States to a group of sponsors, and to the public. Citibank retained 40 per

cent of the new bank's share capital.

Saudi American executives say neither Citibank nor the Saudi Arabian Monetary Agency (SAMA) blocked the transformation. However, it is evident that negotiations, which got under way in mid-1978, were affected by two major issues.

The first was the general principle of how Citibank's Saudi assets should be valued. Following the pattern established in the six previous agreements with foreign banks, SAMA pressed for share capital to be priced according to the book value of the bank's assets. Citibank found it difficult to accept this valuation, which tended to ignore the earning power of the business.

Nevertheless, in March, 1980, the public was invited to subscribe for Saudi American shares at the lower book valuation price—which it did, massively. "The people who bought the shares knew the kind of deal they were getting," Mr Sheldon Boege, a Saudi American Bank director says. "They over-

subscribed by about 10 to one". The subsequent massive rise in the share price on the unofficial secondary market has now become part of Saudi banking history.

The second issue involved Citibank's general business philosophy. The process known as Saudi-ization would result in the bank retaining a stake in a business that it did not control. This was unique. However, the prospect of continuing to do business in Saudi Arabia's rapidly growing economy appears to have outweighed other considerations. On July 12, 1980, Citibank's Saudi operations became the Saudi American Bank, with the United States bank continuing to provide management and technical services on an eight-year contract.

Freed from the burdens of negotiating with SAMA, Saudi American concentrated on exploiting the opportunities offered. Lending could be expanded in proportion to the trebling of its capital to 300m rials. New branches could be planned outside Riyadh and Jiddah—a privilege granted only to Saudi-ized banks.

Even so, moves to set up new branches have been cautious. The banking habit is new in Saudi Arabia, and the lack of recent and reliable figures makes forecasting where new business is

likely to emerge difficult and risky. The guiding principle at this stage is to set up branches where consumers go both to buy things and do business.

The bank's overall strategy is to concentrate on developing small business customers, which number close to 40,000, according to recent Ministry of Commerce figures. "This is a sort of balance sheet-oriented strategy," Mr Boege says. "Our intention is to increase our liability side by going into the relatively more liquid sector of the economy: the retail merchants, the small manufacturing companies, the service companies. So it's building up the liabilities side of the business to match our assets."

To help to penetrate this sector, Saudi American plans to introduce this year the interdata banking system developed by Citibank, and marketed widely in North America. This gives Saudi American Bank depositors immediate access to their accounts in any of its branches. They will be able to send instructions for letters of guarantee to be opened, and other financial instruments to be issued, through the system.

Saudi Arabia, will, it is hoped, give the bank a technical lead.

The bank is also developing its corporate services for

larger customers. Its merchant banking division, founded in November, 1980, has participated in a number of rial loan and guarantee syndications. However, it has tended to steer clear of medium-term financing packages.

"We found it more appropriate to our business to give short-term finance or trade finance and working capital finance, than to go into medium-term financing for manufacturers," Mr Boege says. A move into the Euromarkets is also unlikely before the end of the third Saudi plan, which runs from 1980 to 1985.

Saudi American will continue to maintain a strong interest in Saudi Arabia's interbank market in which it is probably one of the largest participants.

Prospects are good for Saudi American. A strong movement out of non-interest-bearing into interest-bearing deposits is discernible among the Saudi public, indicating growing awareness of what the banking market offers. This could lead to funds flowing out of the old established National Commercial and Riyadh banks into newer and more aggressive ones.

Edmund O'Sullivan
Middle East
Economic Digest

Institution with unique role

Senior executives of the year-old Arab Banking Corporation (ABC) say it is not just another bank but an institution with a unique purpose. ABC's founders believe that the future of Arab banking world wide lies in the creation of one or two big, fully Arab investment banking institutions, attracting and directly channelling a major part of Arab surpluses.

A "first generation" of Arab and Arab-European consortium banks was set up in the 1970s, each of which could only hope to achieve specific but often limited targets. These banks have done well and together have made a considerable impact on main world money markets. None of them alone, however, had sufficient resource or the structure to make its presence a major force in financial centres.

Since the sharp rise in oil prices in late 1973, Arab bankers had been considering what role they should play in managing Arab surpluses. As a result, a "second generation" of Arab banks has arisen and has given Arab financial institutions a firmer place in world money markets, moving into a higher level than that achieved by the past generation. It was ABC, "the bank of the banks",

as it is often called by its founders, which was created to lead the second generation.

The two generations vary considerably. Unlike the consortium banks of the 1970s, which were mostly set up by Arab and European partners, ABC is entirely Arab-owned. Again, while the former are mostly managed and staffed by both sides of shareholders, ABC is managed only by Arab directors and its staff is mostly Arab. Although the first generation banks have lead-managed, managed and co-managing such issues and it seldom appears as just a participant.

With headquarters in Bahrain, one of the world's biggest offshore banking centres, ABC was born on January 17, 1980. It started business the following April and was formally inaugurated only a few weeks ago. It has just opened a London representative office at Morcan House, in the heart of the City. A New York office will be opened this year and another, in the Far East, will follow soon. The London office is expected to become a branch

by the end of the year and the same is hoped for the Wall Street office.

ABC has an authorized capital of \$1,000m, about \$50m more than the combined capital of all Arab European consortium banks based in Europe. Its issued capital totals \$750m subscribed equally by Kuwait's finance ministry, Libya's secretariat (ministry of treasury and the United Arab Emirates' Abu Dhabi Investment Authority (ADIA). The remaining \$250m of subscribed capital is divided into shares each with a nominal value of \$100, which can be taken only by Arab investors.

ABC has quickly made remarkable progress. Euro market loan issues lead-managed, managed or co-managed by it were worth \$4,640m in the first six months of operation. These included, for example, a \$500m issue for Italy's Enre Nazionale Idrocarburi (ENI), \$1,100m for Belgium, National Bank of Yugoslavia and the African Development Bank in Argentina and the Corporation Venezolana de Fomento. Among similar issues syndicated in the past two months is a \$200m one-year credit for Pakistan. Issues to be announced soon include a \$150m Eurocredit for Hun-

gary, to be syndicated entirely among Arab related banks and offshore banking units in Bahrain.

Nor many banks can make a profit in the first few months of their lives. Yet, ABC managed to trade at a profit of \$45m in the six months to December 1980, in the same period, assets jumped from only \$255m to \$1,950m and deposits from nil to \$1,500m.

ABC's capital structure is reflected in its top management team which comprises nine directors. The chairman is Mr. Abdel-Wahhab Al-Tammar, who has for long been in charge of the 80 per cent government-owned Kuwait Foreign Trading, Contracting and Investment Company (KFTCIC), a well-established name in the Euro market.

Mr. Abdullah Ammar, ABC's vice-chairman and chief executive, is the former chairman and general manager of the Libyan Arab Foreign Bank (LAFB). Mr. Saudi, now only 43, has in the past 10 years proved himself an aggressive banking entrepreneur. He was, for example, the chief architect of LAFB's spectacular rise four years ago, making Libya the second biggest shareholder in one of Europe's largest companies.

Atef Sultan

No business is ever too big here

It is said of the Arab Bank that it is the only local bank in Jordan where a customer is never turned away because his demand is too big. Founded in Jerusalem in 1930 by Mr. Abdul Hameed Shoman, one of the first Arab entrepreneurs of this century, with a capital of £15,000 (£15,000 at the time) it now ranks 227th among the top 500 international banks in the non-communist world.

The Arab Bank is the giant of Arab private banking, with about 50 branches, assets exceeding JD1,500m (£2,000m), a balance sheet total of JD2,000m and an operating income of JD106m at the end of 1979. Figures for 1980 are not yet available.

Born about 1890 in Beit Hanina, a small town near Jerusalem, Mr. Shoman left

school at the age of seven. His oldest son Mr. Abdul Majed Shoman, the present chairman and chief executive of the bank, a silver haired and gracious man in his late sixties, recalls: "My father did not even have a preliminary education."

"He knew how to read and write only because he went to school in the mosque, where they used to read the Koran. Because he was badly treated by the shaykh, who used to beat him, he left and went to work in the family stone cutting business." The standing joke, originated by Abdul Hameed himself, is that he was a graduate of Beit Hanina university.

Abdul Hameed showed early enterprise even in the stone cutting business. In 1911 he emigrated to the United States to seek his fortune; having arrived in New York with \$32 in his pocket he returned to Palestine in 1929 after making a

small fortune in the garment industry and founded the first Arab bank in Palestine. Abdul Majed Shoman also recalls that his father wanted to start a bank in the United States as early as 1921, and to open branches first of all in Palestine. Attempts to get Arab immigrants to the United States to subscribe to the project eventually fell through, and another plan in 1928 to establish an Egyptian Palestinian bank failed also, after the Egyptian subscribers pulled out because of troubles between Arabs and Jews in Haifa, and Palestinian subscribers did not want to embark on such a project alone.

Abdul Hameed, however, insisted on starting the bank, and put up the capital from his own funds. Since the bank was set up as a private limited company, there had to be seven shareholders. "So my father picked six of

his relatives and friends as shareholders. He gave them a few shares. There was one man he gave a loan to so he could buy four shares in order to complete the seven shareholders." Abdul Majed explains. The bank opened in July, 1930.

Abdul Majed went to the United States in 1926, at the age of 12. He attended a private school outside New York, then went to New York University where he graduated in economics in 1935. He trained in one of the banks in New York, then returned home, arriving in 1935 in the middle of a general strike in Palestine.

The strike was organized by the Arabs to protest at the rate of Jewish immigration, and lasted six months. Abdul Hameed Shoman was placed in detention camps twice because of his support for the Arab nationalist movement, and in his absence Abdul Majed ran the bank by himself. After

that he helped to run the bank as deputy chairman until the took over when his father died in 1974.

Abdul Hameed Shoman guided the bank for more than 40 years through one crisis after another until it had branches in nearly all Arab countries except socialist Algeria. It weathered a run on banks in Palestine in 1935 when Mussolini occupied Abyssinia; it endured the strike of 1936 and another run on banks when the Second World War broke out; it survived the loss of two branches in Haifa and Jaffa when Israel was established in 1948; the branches in Egypt, Syria, Aden, Sudan and Libya were nationalized between 1961 and 1970; and its branches in Nigeria, Morocco and Saudi Arabia were partly taken over. Yet the bank has kept on growing under Abdul Hameed and Abdul Majed and the deputy chairman Mr. Khalid

Shoman, the founder's younger son.

"We maintain at all times a cash and liquid assets to deposits ratio of over 60 per cent, because we are working in an area that is unsentimental and has been unsentimental for some time," Abdul Majed says. "We ourselves, the Shoman family, did not place any interest in any other business, such as buying land or buildings. Everything we gained we employed again in the bank. We kept a good reserve, and good capital. That's how we kept the bank strong, and we worked hard: we had to work 18 hours a day at times."

Because of its cautious policy, the bank has been able to pay back its depositors on demand. It won the goodwill of its clients during the strike of 1936 by not pressing its creditors. But the crowning touch came in 1948, when the bank paid back its depositors in the Haifa and

Jaffa branches, whose assets were frozen, through its outlets in other Arab countries, while other similarly affected banks did not begin paying back until 1954. During the last Lebanese civil war the bank's branch in West Beirut stayed open and depositors who could not reach the bank's headquarters in the central area, which had turned into a battle zone, had safe access to their funds.

Another reason for the bank's success was that it spread from country to country. When the bank was hit by the 1948 Arab-Israeli war it already had 12 branches outside the area which the Arabs lost and the nominal capital had risen to JD1m. Deposits in Palestine had reached JD6m, of which JD4m were paid to the depositors on demand. The Amman branch, established in 1934, is now the bank's headquarters.

After the first nationaliza-

tion in 1961 when the bank lost 15 branches in Syria and Egypt, which then formed the United Arab Republic, it began to look at possibilities in Europe. In 1962 the Arab Bank Overseas was founded in Zurich, and the next year opened in Geneva. Although it is a separate company with a separate board, it is owned by the shareholders in the Arab Bank.

In 1962 the bank also went into Nigeria. As for Europe, it now has three branches in London, one in Paris and another in Athens. It also owns the Arab Bank Investment Co in London, and plans to open in two other European capitals and in New York. In addition, it has interests in several consortium banks abroad.

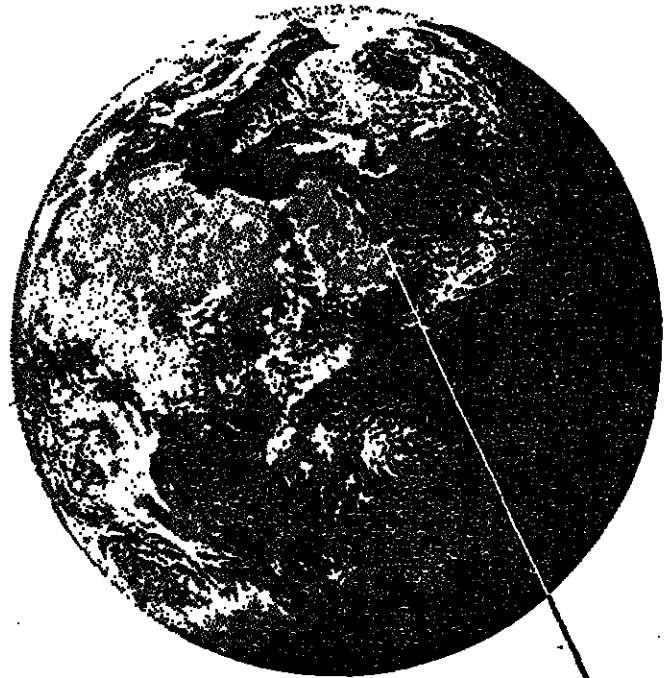
Arab Bank Overseas specializes in portfolio management. The Arab Bank Investment Company is expected to grow into a full-fledged merchant bank, but the Arab Bank remains primarily a commercial bank. It

has, however, been in the European market for four years, with two outlets working in the Euro market; and it has also financed development projects in the Arab world through loans to Arab governments and public corporations and agencies.

The bank has about 3,000 shareholders, who own 1,100,000 shares, which fetch 12 to 13 times their nominal value of JD10. Although the bank's net profit in 1979 was JD14.9m, only JD2.5m was paid in dividends.

There was a share split four years ago, and another is in the offing. At the last extraordinary general meeting, the board of directors proposed raising the paid-up capital to JD22m by transferring JD11m from the voluntary reserve and issuing one extra share to each shareholder. This now awaits government approval.

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